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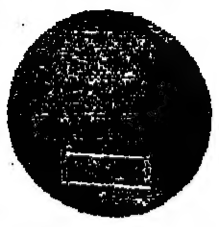
FINANCIAL TIMES



Natuna field
A symbol for Indonesia
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Global business
An end to the cosy market
Peter Martin, Page 12

China's economy
Telling part of the story
Page 6

Today's surveys
Peru
Franchising
Separate Section; Pages 23-25

World Business Newspaper THURSDAY MARCH 7 1996

German jobless total at highest level since 1945

Unemployment in Germany rose to a postwar high last month, casting fresh doubt on the government's forecast of 1.5 per cent growth this year and prompting the opposition Social Democratic party to accuse the ruling coalition of inaction. The federal labour office said one in nine of the labour force was out of work because of the weak economy, bad weather and a sharp downturn in the construction industry. Page 14

EU growth likely to fall below 2%: Economic growth in the European Union is likely to be less than 2 per cent this year, but activity should rebound in the second half of 1996, the Commission said. Page 2

Security forces hit back at Hamas: Palestinian and Israeli security forces struck at the Hamas Islamic movement. They raided strongholds of the extremist group responsible for suicide bombings which have threatened Middle East peace. Page 8

Glaxo losing fight to shield Zantac: Glaxo Wellcome, the largest pharmaceuticals company by sales, said it expected to lose its fight to keep US patent protection until 2002 for Zantac, its ulcer drug worth \$3.4bn a year. Page 15; Lex, Page 14

BAe and Hughes lead missile race: British Aerospace and Hughes of the US are frontrunners in the £700m (\$1.07bn) competition to supply the UK with air-launched cruise missiles. Page 9

Investcorp prepares Saks offering: Bahrain-based investment group Investcorp is believed to be preparing a public offering shares in Saks Fifth Avenue, one of the best-known names in US retailing. Page 15

Unions defend French telecoms monopoly: Trade unions within France Télécom threatened industrial action against the government's plan to end the state utility's legal monopoly. Page 3; Lex, Page 14

Tokyo considers Asian loan plan: The Japanese government, the world's largest holder of foreign currency, is considering lending reserves to some neighbouring Asian countries to help combat foreign exchange instability. Page 6

Rebels attack Chechen capital: Chechen separatists attacked the republic's capital, Grozny, in some of the heaviest fighting since the Russians seized the city a year ago. Page 2

China 'failing on human rights': A US State Department report suggests that US policy toward China has failed to bring about improvements in the country's human rights record. Page 8

Taiwan opposition plans missile protest: Taiwan's leading opposition party plans to protest against Chinese missile tests off Taiwan by sailing boats into the earmarked sites in an attempt to disrupt the exercise. Page 6

Kantor hits at bribery and corruption

US trade representative Mickey Kantor (left) launched an attack on bribery and corruption in international transactions and suggested the US might deem them an "unfair trade practice" punishable by US trade sanctions. He said tax provisions in Germany, France and 12 other unspecified countries enabled companies to write off bribes as tax deductions. Page 5

Stronger growth forecast for Hong Kong: Hong Kong's economy is expected to see stronger growth this year and will return to a budget surplus after the deficit recorded in 1995-96, financial secretary Donald Tsang said. Page 6

CompuServe seeks Internet alliance: CompuServe, one of the leading computer online services, is in talks with AT&T about a possible Internet alliance. Page 15

Investors avoid former Soviet bloc: Foreign investment into the former Soviet bloc countries is lagging behind targets of \$200bn by 2000, a report for the fourth West-East conference of ministers, meeting in Baltimore, shows. Page 5

World Cup Cricket: In the final group matches India beat Zimbabwe by 40 runs, while Pakistan defeated New Zealand by 46 runs and Sri Lanka had a 144-run victory over Kenya. In the quarter-finals England will play Sri Lanka, Pakistan will play India, South Africa will meet the West Indies and New Zealand will play Australia.

STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	5,647.47	(+5.05)
NASDAQ Composite	1,094.03	(-2.78)
Europe and Far East		
CAC40	2,005.89	(+3.95)
DAX	2,468.04	(-12.99)
FT-SE 100	3,758.9	(-18.2)
Nikkei	20,241.18	(+57.31)

US LUNCHTIME RATES

Federal Funds	5%
3-mth Treas Bills: Yld	5.01%
Long Bond	94⅜
Yield	6.442%

OTHER RATES

UK: 3-mo Interbank	6⅛%	(same)
UK: 10 yr Gilt	97⅛	(same)
France: 10 yr OAT	104.98	(104.8)
Germany: 10 yr Bund	97.83	(97.61)
Japan: 10 yr JGB	98.648	(98.432)

NORTH SEA OIL (Argus)

Brent 15-day (Apr)	\$18.195	(17.7)

GOLD

New York: Comex		
(Apr)	\$394.4	(394.6)
London:		
close	\$393.75	(393.3)

DOLLAR

New York: lunchtime		
£	1.529	
DM	1.47555	
FFr	5.0514	
SFr	1.20065	
Y	105.375	
London:		
£	1.5294	(1.5278)
DM	1.475	(1.4789)
FFr	5.0485	(5.066)
SFr	1.1998	(1.2021)
Y	105.275	(105.125)

STERLING

DM	2.2558	(2.2594)
Tokyo $ close:	Y 105.2	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh15	Slovak Rp	Sk65
Bulgaria	Lw130.00	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Cyprus	C£1.20	India	Rs75	Nigeria	Naira90	Spain	Pta250
Czech Rp	Kc80	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Denmark	DKr18	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£85.00
Estonia	EKr 22	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
Finland	FM15.50	Kuwait	Fils.650	Portugal (m'land)	Es240	Turkey	L70,000
France	FFr11.50	Lebanon	LL3,000			UAE	Dh12.00

Sandoz plans $60bn merged group

By Tony Jackson in New York

Swiss company's proposed venture would create one of the top three drugs businesses in the world

Sandoz, the Swiss drugs company, is set to announce one of the world's biggest mergers, creating one of the top three drugs companies with a market capitalisation in excess of \$60bn.

Although Sandoz's partner is not yet public, the deal is expected to be a merger of equals. It would surpass Kohlberg Kravis Roberts' takeover of RJR Nabisco in 1989 as well as Walt Disney's acquisition last year of Capital Cities/ABC. It would also dwarf last year's £9.1bn (\$13.7bn) takeover by Glaxo of its UK rival Wellcome, at that time the biggest deal in the drugs sector.

Sandoz, which ranks 14th by sales in the world drugs market, would not comment last night.

The expected deal comes amid a worldwide mergers and acquisitions boom through the mid-1990s. The surge has been driven by consolidation in industries such as pharmaceuticals, coupled with deregulation and technological development in sectors such as media and telecommunications.

Takeover speculation has dogged the drugs sector for months, sending shares in Zeneca of the UK repeatedly to new highs over the past six months, and yesterday boosting shares in Ciba, Sandoz's neighbour in Basel, by SFr38 to SFr1,125.

Industry leaders are convinced that more deals are imminent. The sector is highly fragmented by comparison with other global industries such as motor manufacturing.

Glaxo Wellcome, the world's biggest drugs company, has a market share of about 5 per cent. The top 20 companies control less than half of world drug sales.

Most of the world's top drug companies have bought and sold businesses in an effort to gain market share and lower costs.

As well as Glaxo and Wellcome, American Home Products paid \$10bn for American Cyanamid, Hoechst of Germany paid \$7.1bn for Marion Merrell Dow of the US and Roche paid \$5.3bn for California's Syntex.

The Sandoz deal would come four months after the creation of Pharmacia & Upjohn from Swedish and US parents. The apparent success of that merger – a friendly share swap which avoided dragging the companies deep into debt – has prompted analysts to argue that mergers were more likely than hostile bids as consolidation proceeded.

Job losses have followed almost all the mergers: 7,500 at Glaxo Wellcome and 4,000 at Pharmacia & Upjohn.

But several companies have yet to do deals with rivals. They include Ciba, Zeneca, the US companies Eli Lilly and Pfizer, and Germany's Bayer.

The deal-making has been principally about cost-cutting as drug buyers, mostly governments, have tried to limit the growth of healthcare spending by driving hard bargains with suppliers.

Merger famine, Page 15

Victory salute: Bob Dole and his wife Elizabeth giving a thumbs-up in Washington as the US Senate majority leader became overwhelming favourite for the Republican party's presidential nomination after his victory in all eight primaries held on Tuesday Picture: Reuter

Dole endorsed by rivals in US primaries

By Jurek Martin in Washington

Two of Mr Bob Dole's rivals for the US Republican presidential nomination dropped out of the race yesterday and endorsed the Senate majority leader, already riding high after a clean sweep of eight primary elections on Tuesday.

But Mr Pat Buchanan, the rightwing pundit, and Mr Steve Forbes, the magazine publisher, vowed to fight on. But even Mr Buchanan conceded it appeared "inevitable" that Mr Dole would be the Republican nominee.

Mr Forbes appeared in New York, site of today's primary, having won the backing of Mr Jack Kemp, the former housing secretary and tax-cutting congressman, which he said was an "enormous boost to my campaign of optimism and renewal".

The most significant withdrawal was that of Mr Lamar Alexander, the former governor of Tennessee. His appeal to his native south foundered on Tuesday in Georgia, where he finished a poor third with 13 per cent, and in seven other primaries across the country.

Mr Alexander went home to Nashville to declare that Mr Dole "is our best choice – and of those that remain our only choice – to carry our banner" against President Bill Clinton in the November election. He added he would not accept any offer to run as vice presidential candidate.

Senator Dick Lugar of Indiana also quit the race and backed the majority leader. He had made little impact in the primaries, finishing only fourth in Vermont on Tuesday, but, like Mr Alexander, most of the votes he did receive came from Mr Dole's column.

Governor George Bush of Texas, son of the former Republican president, also came out for Mr Dole yesterday ahead of his state's primary, the largest of next week's "Super Tuesday" elections.

"I am convinced Bob Dole is the right man for Texas and the right man for America," Mr Bush said. Mr Dole described the governor's support as "the icing on the cake" and pointed to a recent poll in Texas which had him beating Mr Clinton by 56-40 per cent. Mr Dole said his goal was now to "unify the Republican party, close ranks and face the real target, Bill Clinton". The endorsements set the seal on a solid primary sweep for Mr Dole after a month in which

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Dole regains his slot, Page 4

German groups dispute BSkyB pay-TV deal

By Hugo Dixon in London, Judy Dempsey in Berlin and Andrew Jack in Paris

A dispute broke out yesterday between Mr Rupert Murdoch's BSkyB satellite television group and Bertelsmann and Kirch, Germany's leading media groups, over whether BSkyB had a deal to enter the German pay-TV market. Bertelsmann, however, confirmed it had formed a pact with Mr Murdoch to develop pay-TV services together in Europe.

BSkyB said it was acquiring a 25 per cent stake in Premiere, the leading German pay-TV channel, for \$270m. Half would be acquired from Bertelsmann, with the other half from Canal Plus, the leading French pay-TV group. Each currently owns 37½ per cent of the channel.

However, Bertelsmann contradicted this. "It is not legally possible to change the shareholding structure of Premiere just like that. The ownership structure of Premiere has not changed. Really, something has gone terribly wrong in London," said Mr Nikolaus Formanik of Ufa, the television and film division of Bertelsmann.

Kirch, which holds 25 per cent of Premiere, was astonished by BSkyB's statement. "It is not possible to do this without the permission of Kirch," said Mr Gottfried Zmeck, a senior manager of the Kirch group.

The dispute comes as Bertelsmann and Kirch vie with each other for domination of the German digital pay-TV market. Each has formed rival consortia to provide the hardware necessary to receive pay-TV services.

Bertelsmann and Kirch have also been jockeying for position in the provision of pay-TV services, despite being partners in Premiere. Bertelsmann, which has management control of Premiere, is planning to use it as the platform to launch a multichannel service on satellite later this year. Kirch has been threatening to go it alone.

Despite the dispute over what had been agreed with BSkyB in Germany, Bertelsmann did confirm the two groups had formed an alliance to develop digital pay-TV opportunities in Europe. They are creating a new company in which Bertelsmann, BSkyB and Canal Plus will each hold 30 per cent, with France's Havas holding 10 per cent.

Compagnie Luxembourgeoise de Télédiffusion, the Luxembourg media group which had previously held talks with BSkyB about forming a pay-TV alliance, said it would press ahead with its

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European delicacies to get protection from Brussels

By Caroline Southey in Brussels

European delicacies, including feta cheese, Jersey royal potatoes and Gloucestershire cider, were yesterday offered protection by the European Commission from imitations that fail to follow traditional recipes.

The choice of 318 foods for protection follows months of deliberation by the Commission, which had to sift through 1,400 products cherished by member states but given imperfect protection by existing national legislation.

Among the listed products are 104 cheeses and 64 meats, mostly from France, as well as some 30 olive oils and fats. There is also a list of "generic" names for six cheeses, such as brie, camembert and cheddar, already considered so common that they can be used by anybody.

The most controversial item on the list is feta cheese, which can only be made from goat's milk in Greece. Denmark argued that its producers have been making feta cheese from cows' milk for 20 years and that a ban on the use of the name would harm its substantial exports.

Mr Franz Fischler, EU commissioner for agriculture, admitted that, in compiling the list, the Commission had a new and different role which resembled that of a "trademark office". A senior EU official added: "It is not much fun."

Registration will protect the products in the same way as patents or trademarks protect industrial property rights.

Once a "geographical indication" is given, only producers in a designated area who comply with certain production rules can use that name.

Mr Fischler yesterday offered two concessions to the producers of foods which will be affected. He said restrictions on the use of product names would apply only within the EU, and he would support a five-year phase-in of the list.

UK producers received protection for Orkney beef, Newcastle Brown Ale and West Country Farmhouse Cheddar Cheese.

In continental Europe, Boeuf du Maine in France, Mozzarella di Bufala Campana in Italy, Noord-Hollandse Gouda in the Netherlands and Rhenser Mineralbrunnen (mineral water) in Germany were among the products on the list.

"The aim is to bring some clarity into the market and to protect the interests of producers and consumers," the Commission said, pointing out that "imitation" products left consumers "confused as to which product was genuine and which was a copy".

Commission officials said the regulations had been checked with the US and with World Trade Organisation rules. However, Danish dairy producers have asked their government to challenge the proposals in the European Court.

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NEWS: EUROPE

Brussels confirms growth setback

By Lionel Barber in Brussels

Economic growth in the European Union is likely to be less than 2 per cent this year – lower than forecast – but activity should rebound in the second half of 1996, the Commission said yesterday.

Earlier this year Brussels was predicting 2.6 per cent, and there is concern that the slowdown could tip the EU into recession. However, Mr Yves-Thibault de Silguy, economic and monetary affairs commissioner, insisted yesterday that the economic fundamentals remained sound with a trend of lower interest rates, low inflation, and strong corporate profitability.

"There is no recession," he said. "There is a crisis of confidence."

Despite faltering EU expansion, notably in Germany, Mr de Silguy remained optimistic about the prospects for launching a single currency on schedule in January 1999. A "significant" number of the 15 member states would be ready to join monetary union by the end of next year, he said.

Mr de Silguy was presenting the Commission's annual economic report in Brussels. The 132-page document included for the first time an admission that the slowdown threatened to undermine the Union's medium-term goal of halving unemployment by the end of the century.

It blamed last year's "disappointing" performance on exchange rate volatility, an end to stock-building early in the economic cycle, and a rise in long-term interest rates. Growth came to a halt at the end of the year, with the likely outturn being around 2.5 per cent. Such levels of growth were not enough to stop unemployment rising, particularly among young people, and could encourage governments to relax efforts at fiscal consolidation, the Commission said.

"Impatience with the pace of recovery, along with fears of social unrest, might weaken or even paralyse governments' efforts to carry out the necessary budgetary and structural reforms," said the report. But any short-term benefits from reduced fiscal rigour were likely to prove illusory.

On individual countries, Mr de Silguy gave high marks to Denmark, Ireland, the Netherlands, and Sweden for exceeding their own targets for budgetary rigour. But he singled out France, Germany and Austria for falling short of their goals.

Most countries benefited from the recovery in 1995, but – with the exception of Britain and the Netherlands – most failed to make a dent in unemployment. Italy saw a solid export-led recovery, but with high inflation and poor job creation. Spain also improved, but high public deficits and unemployment continued to pose a big challenge to the authorities.

The Commission will unveil fresh economic forecasts in May, including predictions for each member state. Around this time it will make recommendations on which countries are running excessive budget deficits above the Maastricht treaty target of 3 per cent of gross domestic product.

Mr Jacques Santer, the European Commission president, has proposed a "pact of confidence" to encourage governments – along with business and trade unions – to take measures to relieve unemployment while maintaining the drive for budgetary rigour.

The Commission is sensitive to charges that budget austerity is promoting deflationary policies which are exacerbating unemployment. Mr de Silguy stressed yesterday that "there is no alternative" to restoring public finances which were the prerequisite for lower interest rates and stronger growth.

Bonn forecasts greater regional and state competition under Emu

The German government yesterday forecast that European economic and monetary union would unleash tougher competition between countries and regions to make their industrial locations more attractive to business, and create healthy pressure for greater deregulation and flexibility in goods and labour markets, writes Peter Norman in Bonn.

In a long promised answer to a series of parliamentary questions put by the opposition Social Democratic party, the government warned that under Emu both sides of industry would have to take a more responsible approach to wage bargaining and pay greater attention than before to international productivity differences.

The government said that German federal, state and local authorities must step up their budgetary consolidation efforts to meet the Maastricht treaty entry criteria for Emu.

Bank's shareholder governments agree in principle to extra Ecu10bn

EBRD to have its capital doubled

By Kevin Done, East Europe Correspondent

The European Bank for Reconstruction and Development has won the support in principle of its shareholder governments for the doubling of its capital from Ecu10bn ($12.8bn) to Ecu30bn during the rest of the decade.

With growing demand for finance from central and eastern Europe the EBRD would exhaust its present capital base within the next two years at its present level of operations. "By the year-end the EBRD had already approved projects equal to almost 80 per cent of its capital base, and we expect that demand for our services will continue to increase," Mr Jacques de Larosière, president, said yesterday.

The bank had a portfolio of 368 projects approved by the board worth Ecu7.9bn by the end of last year, with 355 more in the pipeline worth Ecu8.1bn.

Details of how the new capital will be provided are likely to be finalised at a meeting of European Union finance ministers next week. Governments are eager to limit the impact on national budgets by spreading the capital contribution over several years.

EU states and institutions hold a combined 56 per cent of the bank's equity, although the US is the largest single shareholder with 10 per cent. Japan holds 9 per cent and the states of central and eastern Europe, including the former Soviet Union, 12 per cent.

Formal approval for the injection of new capital is expected to be given by governments at the EBRD's annual meeting in Sofia, Bulgaria, next month. Mr de Larosière said yesterday that he was confident of winning support.

Backing from EBRD member governments for the increase is a significant vote of confidence in the bank's recent performance. It contrasts sharply with the institution's shaky start, which led to the premature resignation of its first president, Mr Jacques Attali, in the summer of 1993.

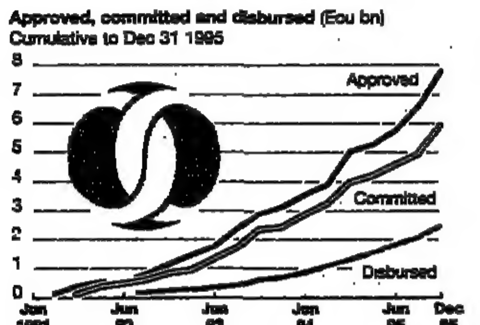
Mr Attali was severely criticised for his high-cost management style and the bank's heavy spending on its London headquarters. Under Mr de Larosière the bank's total administrative expenses have been kept under tight control, with only marginal increases in the past two years and falling overheads, despite a big increase in the volume of its operations.

The EBRD was established in 1991 to assist in the transition process from centrally planned to open market economies in central and eastern Europe following the collapse of communism. It announced yesterday that it had achieved a net profit in 1995 of Ecu7.5m after provisions, compared with Ecu1m a year earlier. Operating profits of Ecu82.9m before provisions were more than three times the 1994 level of Ecu24.9m.

"The 1995 financial results were above expectations," said Mr Bart le Blanc, vice-president, finance, yesterday. The bank had "significantly strengthened" its reserves, and the EBRD claimed that, after five years of investment in central and eastern Europe, it was moving towards "sustained profitability".

The bank lends more . . .

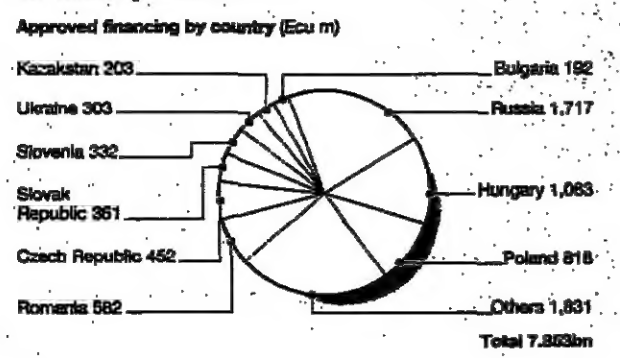
Approved, committed and disbursed (Ecu bn)
Cumulative to Dec 31 1995



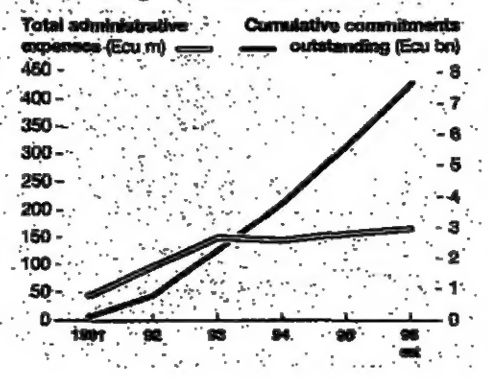
Source: EBRD 1995 annual results

in more places . . .

Approved financing by country (Ecu m)



and brings costs under control



Bank casts off its profligate image

Broadgate's 'fat lady' looks lean and fit these days, writes Kevin Done, East Europe Correspondent

The European Bank for Reconstruction and Development is working hard to polish its new reputation for thrift and prudence before its annual meeting next month in Sofia – and for good reason.

At the present rate of increase in operations the EBRD's capital base of Ecu10bn ($12.8bn) will be exhausted by the end of 1997, and the bank expects a big jump in demand during the rest of the 1990s as the states of the former Soviet Union join the track of strong economic growth already taken by most of central Europe.

For the past year the bank has been working diligently to convince its 59 shareholders – 57 governments, most with their own budgetary problems, together with the European Union and the European Investment Bank – that it is worth pumping in another Ecu10bn to double the bank's capital and to allow it to continue to expand.

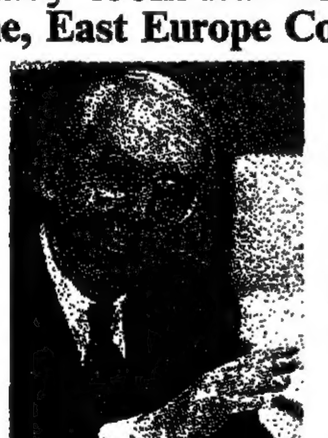
Ever since the premature departure as president of Mr Jacques Attali in 1993, his successor, Mr Jacques de Larosière has been working to repair the damage caused by his predecessor. For more than 12 months he has been preparing the ground to win shareholder support for doubling the capital to Ecu20bn.

In practice the pain will not be quite as bad for the finance ministers assembled in the Bulgarian capital as the headline figure suggests. Of the EBRD's present Ecu10bn capital base only 30 per cent is represented by "paid in" shares.

The balance of the increase will again be so-called "callable" shares. These can only be called in dire circumstances, "as and when required by the bank to meet its liabilities". But in practice they afford vital protection to support the EBRD's AAA debt rating in the international capital markets, as it borrows to meet the bulk of its capital needs.

Mr de Larosière has no doubt that an increase in capital is urgently needed. "This is a crucial moment for the bank," he said yesterday.

By its statutes the bank is only allowed a one-to-one gearing ratio – it is not allowed to lend more than its capital. The 368 projects already approved in 24 countries total Ecu7.85bn, or around 80 per cent of the capital base, and the bank is planning to move to signing projects (the intermediate stage between approval and disbursement) at a volume of around Ecu2.5bn a year by 1999, from last year's level of Ecu2bn. "Without new capital, the volume of our new business would drop to around Ecu500m a year," said one senior official.



De Larosière: working to repair the damage

While the bank believes that the need for the capital boost cannot be disputed in terms of aiding the transition process in east Europe, it is also adamant that its operating performance of the past two years deserves a vote of confidence from its shareholders. And EBRD officials are holding out the additional carrot that this could be the first and last cash call.

Mr de Larosière said that substantial progress had been made in meeting the key targets established for the bank's development in the wake of Mr Attali's departure, namely:

- to increase the focus of lending and investment on the private sector;
- to increase the geographical spread of operations to the riskier countries in the region;
- to target local private enterprises, rather than simply joint ventures with western investors;
- to make more use of local financial institutions in the region; and
- to be more active in equity investments.

Last year 71 per cent of the projects signed and 85 per cent of approved projects were in the private sector. The first disbursements were made in four new countries, Azerbaijan, Croatia, Georgia and Kyrgyzstan.

Equity investments last year accounted for a quarter of the value of all approved projects, and the bank is using a series of credit lines to local banks and a number of new investment funds to target small and medium-sized companies. Transactions with local financial institutions accounted for 27 per cent of the bank's total commitments for the year.

The EBRD believes its financial performance also passes muster. Banking operations accounted for 36 per cent of gross income compared with 20 per cent a year earlier, and for the first time there were "significant contributions" from equity investments. At the same time, provisions were trebled to Ecu75.4m, as the bank moved to weed "soft" assets out of its portfolio.

And on its most sensitive point, namely costs, Mr Bart le Blanc, vice-president finance, claims productivity has risen sharply. "There has been no real increase in administrative expenses for the past three years at a time of significant expansion in the business." Overheads are down from 29.8 per cent of operating costs in 1993 to a forecast 24.1 per cent this year. Two of the bank's 12 floors are being sub-let.

The ample figure of the bronze nude, the "Venus of Broadgate", still looms before the entrance of the EBRD, but behind it the other "fat lady" has been on a tough course of dieting.

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R J

Minister warns Nato of higher Russian defence spending

Primakov bangs military drum

By Bruce Clark, Diplomatic Correspondent

Russia will be forced to increase military spending if Nato enlarges and deploys nuclear weapons on the soil of its new members, according to Mr Yevgeny Primakov, the Russian foreign minister.

This latest Russian warning came as Mr Javier Solana, the Nato secretary-general, is preparing for a ground-breaking visit to Moscow this month which is aimed at easing the considerable strains in Russian-Nato relations.

Mr Primakov, in an interview with the daily Izvestia, said Nato's eastward expansion could present Russia with a challenge similar to that posed by the Pershing-2 rockets which the US deployed in western Europe in the 1980s.

"We are not so primitive as to think that the expansion of Nato will be used for a swift strike against Russia," he said.

But he added: "If short-range missiles with nuclear warheads are installed on the territory of newly integrated Nato members, they will have the same flying time as the Pershing-2."

The Soviet Union particularly objected to the Pershing-2 rockets, which were eventually removed under the INF treaty barring medium-range missiles, on the grounds that they could reach Soviet territory in five or six minutes.

Mr Primakov said that in the event of fresh nuclear deployments by an enlarged Nato, "our military men.... will ask for extra funds, and we will be obliged to provide them".

Nato officials said they were hoping shortly to sign memoranda with Russia on scientific research and disaster relief. This would amount to the first hint of progress for some months in Nato's prickly relations with Moscow.

However, Moscow is continuing to raise objections of detail to a formal agreement on the status of the 1,500 Russian soldiers who are taking part in Nato's peace implementation effort in Bosnia. It is also proving reluctant to co-operate with western forces over the arrest of war criminals in Bosnia, and has yet to reply to Nato proposals last autumn for a formal relationship.

Mr Primakov confirmed that links with Russia's neighbours were his top priority. He said some ex-Soviet republics would probably transfer part of their sovereignty to a supra-national structure similar to the European Union – without ceasing to be sovereign states.

He singled out Belarus, Kazakhstan and Kyrgyzstan as republics likely to opt for deeper forms of integration with Russia – and criticised western countries for objecting to the integration process.

Troubled Russian banks get help to survive

By John Thornhill in Moscow

Russia's central bank is making a radical attempt to stave off deepening problems in the country's fragile banking sector by assuming management control of two well known but financially troubled institutions.

In an unprecedented action to help banks manage themselves out of crisis, a team of central bank experts will supervise the activities of both Avtovazbank and Natsionalnyi Kredit, protecting them from their creditors while they can be recapitalised.

The move to bolster the banking industry has assumed considerable political significance three months before presidential elections. Big bank collapses would be politically damaging for President Boris Yeltsin. They would also tarnish the reputation of Mr Vladimir Kadannikov, newly appointed first deputy prime minister, who was formerly head of Avtovaz, the giant car producer which helped found Avtovazbank and retains a 35 per cent shareholding.

Russia's banking sector has been plagued by liquidity problems following a panic on the inter-bank lending market last autumn when banks refused to extend loans to weaker banks fearing they were insolvent.

Banking crises have been common to almost all transition economies as inexperienced banks encounter tougher trading conditions when the economy stabilises and the easy profits made from currency speculation and soft loans have evaporated.

"Russia's banking system remains fragile enough that there could be another systemic crisis," said one banking industry source. "As long as you have a high reliance on inter-bank lending then problems at one or two major players can quickly affect the whole system."

Mr Sergei Dubinin, the tough-minded central bank governor, said this week he would be prepared to give competent banks temporary support to help them manage themselves out of their difficulties but he rejected any notion of bailing out all the troubled operators among Russia's 2,500 banks.

The turmoil at Avtovazbank and Natsionalnyi Kredit highlights many of the structural flaws in a system where links between shareholders and managers are often alarmingly close.

Avtovazbank had asked shareholders and the central bank for up to $40m in fresh funds. But the shareholders, which include the giant Kamaz truck plant and several other important industrial enterprise in the Volga region, are heavily exposed to the bank and were reluctant to hand over money to its discredited managers.

The bank's board last week sacked most of the directors and put the vice-president, Ms Vera Prokopenko, in charge under central bank administration. The aim is to salvage the bank and allow it to re-emerge within three to six months with a new capital structure.

Natsionalnyi Kredit, founded by the flamboyant entrepreneur Mr Oleg Boiko, is seeking a central bank loan of $70m to help it out of its difficulties.

The central bank also appears to be using the high-yielding Treasury bill market to help keep banks afloat. It is estimated that some banks maintain 90 per cent of their assets in the profitable and liquid T-bill market.

EUROPEAN NEWS DIGEST

Chechen rebels attack capital

Chechen separatists, unbowed by 15 months of struggle, launched a determined assault on the republic's capital, Grozny, yesterday, in some of the heaviest fighting since the Russians seized the city a year ago. Russian news agencies reported that federal forces had suffered heavy casualties and that fighting was continuing as night fell. Persistent skirmishes were also reported at Sernovodsk, 30 miles to the west.

The turmoil in the north Caucasus is becoming critical for President Boris Yeltsin's chances of re-election in June. He has conceded that he stands little hope if the conflict does not stop before polling day on June 16.

The Chechen assault on Grozny began before dawn yesterday as small bands of separatist fighters infiltrated the devastated city from three sides and advanced towards the centre. The Russian forces, who appeared surprised by the ferocity of the attack, called in helicopter gunships.

But the Chechen resistance suffered one setback as Russian news agencies reported that Mr Salman Raduyev, the guerrilla leader who led a hostage-taking raid on Kizlyar earlier this year, had died of head wounds. The latest Chechen offensive follows a visit to the region this week by Gen Pavel Grachev, Russia's defence minister. *John Thornhill, Moscow*

Nato to widen role in Bosnia

The Nato-led Implementation Force (Ifor) is poised to expand its role in Bosnia to include guarding mass graves and detaining war criminals, alliance officials said yesterday.

In a reversal of Ifor policy, the new guidelines will allow the 60,000-strong force to detain Bosnian Serb leaders who have been indicted for war crimes, should they come across them. Until now Ifor has said the detention of suspects was strictly a police matter.

The decision came after Ifor was criticised last week for securing a building for international mediators while Mr Radovan Karadzic, the Bosnian Serb leader indicted for war crimes, was also inside.

In another challenge to the Dayton peace agreement, which guarantees freedom of movement throughout the country, Serbian radio reported that Bosnian Serb soldiers had detained 14 Moslems crossing the northern land corridor, secured by US forces. *Laura Silber, Belgrade*

■ Mr Robert Frowick, the US envoy organising elections in Bosnia, said yesterday they may not be able to go ahead as planned in the Dayton accord. "It is not now definitely possible to say the elections will take place," Mr Frowick said after meeting Nato ambassadors. *Reuter, Brussels*

Portuguese budget progresses

Portugal's minority Socialist government passed its first big test in parliament yesterday when the first reading of its 1996 budget plan was approved.

The Socialists, four seats short of an overall majority, won the vote by securing the abstention of the 15 deputies of rightwing Popular party (PP) in return for amending some proposals. The centre-right Social Democrats (PSD), the main opposition party, and the Communist party voted against the bill at the close of a three-day debate. Parliament will vote on a final reading on March 16.

Mr António Sousa Franco, finance minister, agreed to implement several minor amendments proposed by the PP, including family tax rebates for spending on education and a special tax regime for fishermen. He said the changes would increase the budget deficit by about Es8bn ($52m), increasing the deficit to 4.23 per cent of gross domestic product from 4.17 per cent. *Peter Wise, Lisbon*

Hungary to target black market

Hungary is to grant state investigators greater powers to investigate economic crime, Mr Gyula Horn, the prime minister, told parliament yesterday.

Mr Horn said a new investigation office would be set up to centralise information on economic crime from the police, tax and customs authorities. It would work alongside an existing government supervision office whose powers are to be increased.

The move comes amid growing concern at the size of Hungary's black economy, estimated at around 30 per cent of gross domestic product. A recent report commissioned by the prime minister's office found that 17-25 per cent of average family spending was on the black market, resulting in annual tax losses of up to Ft100bn ($700m). MPs from all parties said high taxes and social security contributions were partly to blame, as well as the recession which pushed many into black market activities. *Virginia Marsh, Budapest*

Consumer prices rise in Greece

The Greek consumer price index rose by 0.3 per cent in February from January, and was up by 8.5 per cent year-on-year, Greece's national statistics department announced yesterday.

Last month's rise was mainly due to higher cigarette prices. The 8.5 per cent annual rate in February was the same as the previous month. Consumer prices rose by 8.1 per cent during the whole of last year, and the government is predicting 5 per cent for this year. *AFP, Athens*

Lesson of Bremer Vulkan affair

Mr Karel Van Miert, the European Union's competition commissioner, said the Commission wanted stricter controls on the use of public subsidies in the wake of the affair surrounding the German shipbuilder, Bremer Vulkan.

Mr Van Miert said future subsidy funds should not flow directly into the central finances of a company, and guarantees about exactly how funds would be used should be necessary.

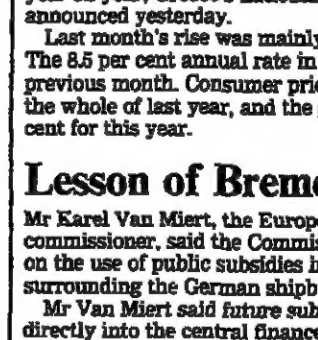
Bremer Vulkan, which recently applied for protection from creditors, is accused of diverting DM716m ($487m) of public and private funds intended to refurbish eastern German yards. The EU is demanding information on how the misused funds were spent. Mr Van Miert and the German economics minister, Mr Günter Rexrodt, stressed the extra controls should not lead to more bureaucracy. In future, approval of funds should be speeded up, they said. *Reuter, Berlin*

ECONOMIC WATCH

Spain's growth begins to slow

Spain

GDP (annual % change)



Source: FT Extel

Spain's economy – one of the fastest growing in the European Union last year – is showing signs of flagging because of weak consumption. Gross domestic product grew by 0.4 per cent in the final quarter of 1995, and by 3.0 per cent during the whole year, the national statistical institute reported. In the fourth quarter GDP showed 12-monthly growth of 2.6 per cent from 2.8 per cent in the third quarter. But household consumption grew by only 0.1 per cent in the last quarter and by 1.8 per cent during the whole year, although in 1994 it expanded by only 0.8 per cent. The economy grew 2.1 per cent in 1994 after a period of recession. *AFP, Madrid*

■ Sweden's producer price index fell 0.3 per cent in January from December, bringing the year-on-year rise to 2.0 per cent.

■ Dutch consumer credit increased nearly 7 per cent to Fl 14.3bn ($8.7bn) in 1995 from a year earlier.

هكذا من الأصل

Turkish PM stands by old guard

By John Barham in Ankara

Mr Mesut Yilmaz, Turkey's prime minister-designate, yesterday named his new cabinet, with portfolios carefully shared out between his Motherland party and its True Path coalition partner.

Both conservative parties are traditional rivals, even though they share the same pro-western, secular and free-market policies.

The new government, which formally takes power next week after parliament has approved its programme in a confidence debate, ends 11 weeks' uncertainty following December's elections in which no party won a mandate to govern. The Motherland-True Path alliance was sealed only last week after Mr Yilmaz failed to form a coalition with the Islamist Refah party.

Most of the new ministers are traditional politicians, with a leavening of technocrats and businessmen. There are few representatives from Motherland's contingent of Islamists or True Path's right-wingers. Motherland will control the important interior and defence ministries. True Path wins foreign affairs, education and justice.

As well as sharing portfolios, the two parties will also rotate the premiership. Mr Yilmaz, a former prime minister, will hand over power to Mrs Tansu Çiller, the True Path leader, at the end of the year. She will serve as prime minister until the end of 1998, after which Mr Yilmaz will take over again for a year.

The two parties have decided to share out responsibility for the economy. Motherland will control the Finance Ministry and True Path the Treasury. Although party divisions could undermine implementing the new government's economic reform agenda, financial markets hope that the two sides will learn to co-operate with the passage of time.

The government wants to privatise the large but badly-run state banks this year. It plans to limit the issue of fresh domestic debt, effectively forcing the government to eliminate its big budget deficit. Mr Yilmaz also plans to introduce private pension schemes to replace the deficit-ridden state system.

Mr Yilmaz's senior appointments are well-regarded former ministers. Mr Oltan Sungurlu, the new defence minister, was a competent justice minister in the last 1983-91 Motherland government. Mr Ekrem Pakdemirli, who becomes finance minister, is an economist and former minister. Mr Rusdu Saracoglu, a former central bank governor, becomes a minister of state.

Mr Nahit Mentese, an old-style True Path politician and former interior minister, becomes deputy prime minister.

Mrs Çiller will not serve in the cabinet while Mr Yilmaz is prime minister.

Italy to pay out huge pensions arrears

By Robert Graham in Rome

The Italian government yesterday agreed to observe a Constitutional Court ruling and pay arrears owed since 1983 to almost 1m pensioners.

For this year, the extra payment due to pensioners will be funded directly by INPS, the state pensions institute. But the government has agreed to fund arrears with treasury bonds worth a minimum of L19,700bn ($12.5bn).

The maximum cost if heirs are also included could be as high as a staggering L47,300bn. The government has been under strong pressure from the trade unions to honour the court's decision issued in June 1994. The move to settle the issue in the run-up to the April general elections is likely to be criticised by the opponents of Mr Lamberto Dini, the caretaker prime minister. However, any government would have found it difficult to avoid honouring the ruling much longer.

In a complex ruling, the Constitutional Court accepted that a group of pensioners on minimum pensions had been denied certain entitlements and accordingly ordered these benefits be made good with arrears and interest from 1983. Successive governments have recognised the justice of the pensioners' demands but have fought the case through the courts to postpone payment.

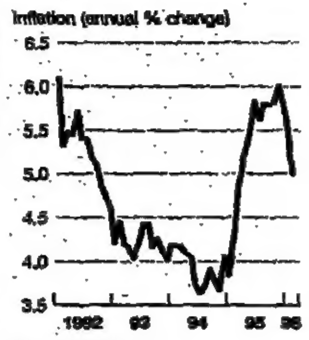
INPS has since produced various hypothesis of the cost, based in good measure on whether heirs will be entitled to claim the benefits. The minimum amount without heirs and avoiding interest would be L19,700bn; but if a generous interpretation is allowed, then the bill rises to L47,300bn. The government said it would release details today of how it intended to interpret the court's decision regarding payments.

Last week, the board of INPS refused to countenance the inclusion of an extra L3,000bn in its 1996 budget to cover the 1996 payments due under the court ruling. This was on the grounds that INPS was still unaware how the government was to settle the arrears.

It will now be obliged to fund the 1996 payments. This could raise its deficit, funded by the Treasury, from L74,000bn to L77,000bn. But INPS hopes a crackdown on pensions fraud could reduce this.

On 11 occasions in the past 20 years, Italian governments have used treasury instruments (fixed interest, floating rate and inflation-linked bonds) to fund a variety of obligations.

The government hinted yesterday that the issue of bonds would be staggered to avoid a damaging impact on national debt which is running at 124 per cent of GDP.



Falling inflation may help Dini

By Robert Graham

Italy's annualised rate of inflation dropped to 5 per cent in February, confirming the downward trend in consumer prices.

Over the past three months annualised inflation has fallen by a full percentage point. "This is an excellent result but we must continue," said Mr Augusto Fantozzi, the finance minister. "This goes to show our policy of containing prices is working."

Falling inflation could help the political ambitions of Mr Lamberto Dini, the caretaker prime minister who last month decided to form a party to fight the April general elections.

Mr Dini's opponents were thus quick to play down the government's role in fighting inflation. Mr Publio Fiori, a minister in the 1994 government of Mr Silvio Berlusconi, issued a statement on behalf of the rightwing National Alliance, attributing falling inflation to the economic slowdown. "You can't talk of inflation when you freeze investment, when real earnings decline and consumer demand falls. Falling prices are symptomatic of a serious deflationary phase."

He also claimed that the government's decision to delay utility tariff increases, planned for January, until at least June was purely electoral and would create problems in the future.

According to Istat, the statistics institute, prices increased 0.3 per cent in February, the main push coming from transport. Regional divergences also emerged with the north experiencing sharper inflation than the south. Italy's inflation still remains well above the EU norm.

But the Bank of Italy in its latest six-month report suggested annualised inflation could fall below 4 per cent this year, coming closer to the target of 3.5 per cent. The lower rate of inflation reflects the strengthening of the lira, weak domestic demand and continued wage restraint.

Union threat to French telecom liberalisation

By David Buchan in Paris

Trade unions within France Télécom yesterday threatened industrial action against the government's plan to end the state utility's legal monopoly as part of a new system to regulate competition in telecommunications from 1998.

The plan, which is being examined by government lawyers before being presented to the cabinet, would create a new three-person independent regulatory authority with the job of supervising rules fixed by the government. The government will retain the right to license new operators from January 1 1998, the date set for complete liberalisation of the European telecommunications market.

The pro-communist CGT, which is the leading union among France Télécom's 155,000 employees, yesterday called for "a day of action" on March 29, in protest at the replacement of "a public monopoly" by "a Brussels-style universal service". Another union, Force Ouvrière, said it was considering "mobilisation".

The government plan would make France Télécom "the public operator responsible for a universal service", defined as providing an affordable service across the country without any price discrimination based on geography.

At present France Télécom's monopoly requires it to provide a total service. Henceforth, the state will pay France Télécom for services related to defence, education and government research, while new operators will pay France Télécom connection fees which will help the public operator meet the cost of ensuring the same tariff around the country regardless of distance.

New operators will also have to contribute in cash or in kind to providing other public services such as phone cabins, telephone information and directories.

The plan would prevent companies from outside the European Union owning more than 20 per cent of new telecoms operators in France using radio frequencies.

A similar restriction exists in the US, and the French government wants to negotiate reciprocal liberalisation with the US. "If liberalisation proceeds within the World Trade Organisation, this restriction could go," a ministry official said yesterday. No such ownership restriction would exist for operators using cable, whose authorisation, unlike radio frequencies, is not the preserve of the state.

To ensure smooth technical functioning of a competitive market, the government aims that phone users will, from 1998, be able to "change operator without changing number", and that from 2001 each subscriber will get a life-time telephone number "which he will keep not only if he changes operator, but also if he moves to another region" of France.

Commission ponders superhighway laws

By Emma Tucker in Brussels

Measures to outlaw the creation and distribution of illegal decoders for "scrambled" superhighway services such as pay television and video on demand are under consideration by the European Commission.

Officials fear that new services could be prevented from flowing freely around the single market by an assortment of different national laws that aim to stop people from using illicit equipment to avoid paying subscription fees.

Mr Mario Monti, the single market commissioner said the development of the information society in Europe would be undermined "if there is no protection against the pirating of these services throughout the single market". He was launching a Green Paper that will provide the basis for discussions with interested parties over the next three months.

The paper, drawn up at the request of industry, covers all services that are encrypted, or scrambled, in order to ensure payment of a fee. This includes everything from pay television to certain new services such as interactive teleshopping and games supplied on request.

The European Commission proposes reorganising the Eurocontrol air traffic control organisation as a way of cutting delays and congestion and to improve efficiency of flights, it said yesterday, AFX reports from Brussels.

The proposal comes in a white paper on the better organisation of Europe's airspace which says costs of air traffic control have risen to 5.6 per cent of overall air service costs, from 3.8 per cent in 1986. Air traffic control delays were costing airlines in Europe an estimated Ecu1.5bn-Ecu2bn ($1.9bn-$2.5bn) a year, the Commission added.

The Commission said growth of the products was being jeopardised by piracy, with a booming market in unofficial decoders and smart cards that allowed individuals to gain access to services without paying a subscription or fee.

Aware of the problem, some member states have already adopted specific rules which outlaw the manufacture and distribution of such devices. Others are in the process of doing so while some have yet to take any action. The danger is that the laws do not provide equivalent levels of protection and could therefore act as barriers to providers of cross-border services.

Separately, the International Communications Round Table, a coalition of telecom, software and communications companies, has written to the Commission urging it to act now to prevent further fragmentation of national laws in the field of information services.

"It is vitally important that European policy on the information society does not develop haphazardly," said the ICRT.

"The Internet cannot be regulated differently in Germany than it is in France, because it is the same Internet," said Mr John Frank of Microsoft, a member of the ICRT.

Analysts yesterday said laws giving legal protection to encrypted services not only benefited industry, but also consumers by lowering prices.

"Manufacturers would no longer be making losses on the pirate decoders and so could lower their prices," said Mr Edward Bilson, a consultant at J'Son & Partners, a Brussels-based consultancy.

The Commission hopes to complete its consultations by the end of May and to draw up proposals for legislation over the summer.

AMERICAN NEWS DIGEST

IMF cautions Peru as growth slips

Peru's economic growth rate will fall to around 4 per cent this year, less than half the 1993-95 annual average, Mr Jorge Camet, economy and finance minister, said. He predicted "very low and even negative" GDP figures for the first six months of this year, but recovery in the second half.

The forecasts came in a Tuesday evening speech to businessmen in which Mr Camet was obliged to defend the government's economic record, following the leaking of a letter to Peru's economic team from Mr Michel Camdessus, International Monetary Fund managing director.

The letter, dated 20 February, expressed "concern" over the recent rise in inflation (an accumulated 2.8 per cent for the first two months) and the pace of import growth. Mr Camdessus highlighted Peru's lower-than-expected 1995 fiscal surplus and the high deficit on current account.

Peru owes some $9bn to the Paris Club. But in his leaked letter, Mr Camdessus warned: "I do not believe it is realistic to hope the exceptional treatment given to Peru up to now by foreign creditors will continue at the same levels in the future".

Last year's current account deficit closed at $3.75bn, or 7.5 per cent of official GDP, according to central bank figures released this week. Exports rose 22.3 per cent to $5.57bn on the back of high international minerals and commodities prices, but imports rose 37.9 per cent to $7.69bn, leaving a trade gap of $2.12bn, more than double the 1994 total. *Sally Bowen, Lima*

Peru Survey, Section III

US amnesty for pension culprits

The US Labour Department yesterday announced a six-month amnesty for companies which have diverted or stolen pension contributions deducted from employees' salaries.

The department has launched investigations into over 600 companies over the last year, and 35 criminal cases have been opened with four companies already pleading guilty. So far, $6m has been recovered and 400 cases remain open. Mr Robert Reich, labour secretary, stressed the vast majority of workers' savings were safe. Under the amnesty, companies have until September 7 to repay the money with interest.

The money involved is contributions employees make to 401(k) pension plans, a fast growing system providing US employees with portable pensions. Under these plans, employees choose where to invest their retirement savings from a range of options presented by employers, often mutual funds. *Maggie Urry, New York*

Piper Jaffray fined $1.25m

Piper Jaffray, the mutual fund group, has agreed to a $1.25m fine imposed by the National Association of Securities Dealers. The NASD, a securities industry self-regulatory body, also censured the firm for allegedly misleading investors over the level of risk in a bond fund it marketed.

Piper Jaffray neither admitted nor denied the findings. It has already agreed to repay $67m to investors who lost money when the fund's value fell in spring 1994 as rising interest rates hit the interest-sensitive derivatives which made up more than half the fund's value. As part of the settlement with the NASD, Piper Jaffray will appoint an independent consultant to review its practices in selling mutual funds.

The NASD found Piper Jaffray had recommended the fund to some investors even though it was not a suitable investment for them. The fund's high-risk level was not disclosed, it said, and it purported to be "safe and conservative". Some investors were unsophisticated, elderly, or risk averse, and put all their liquid assets into the fund.

The Piper Jaffray institutional government income portfolio was launched in 1988 as a conservative fund investing largely in government securities. But it built up a portfolio of mortgage-backed derivatives. *Maggie Urry, New York*

Top drug trafficker shot dead

José Santacruz Londoño, considered by the US Drug Enforcement Administration as one of the world's top criminals, was shot dead by Colombian police on Tuesday night on the outskirts of Medellín. The Cali cartel drug trafficker, who was captured last July in a Bogotá restaurant, escaped from a maximum jail nearly two months ago with the collaboration of prison guards.

General Rosso José Serrano, commander of the national police, said informers had been supplying information over the past 20 days which led the police to concentrate the search for Santacruz in Medellín rather than Cali. Police intercepted Santacruz and his bodyguards on a road leading out of the city and he was killed in a shoot-out.

● Colombia's inflation rate for the first two months of 1996 jumped to 6.6 per cent, an increase of 1.2 per cent over the same period in 1995. This will make it virtually impossible to meet the government target of 17 per cent for the year. *Sarita Kendall, Bogotá*

Panamanian tells of 'threat'

A former high-ranking officer in the Panama Defence Forces told a federal court in Miami he was threatened with arrest by a federal prosecutor if he did not testify against former Panamian dictator General Manuel Noriega in his 1991-92 narcotics trial.

Colonel Rogelio Alda claimed yesterday he was approached in Panama after the US invasion, and gave US drug enforcement administration prosecutors details of a cocaine-processing laboratory and a field of coca plants. He said he was told that if he did not go to Miami to testify against Gen Noriega he could be arrested "as an accomplice."

Gen Noriega's lawyers are requesting a new trial on grounds of prosecutorial conduct. *Henry Hamman, Miami*

Dour Dole regains his slot as Republican top dog

'Comeback adult' is on course for the nomination

By Jurek Martin in Washington

Senator Bob Dole stands today, ahead of next week's Super Tuesday clutch of Republican primaries, as the overwhelming favourite for the Republican party's presidential nomination – which is more or less where everyone thought he would be before the election season began.

But the route the Senate majority leader has taken back to this pinnacle has not been exactly predictable.

A wafer thin victory in the Iowa caucuses and losses in the New Hampshire, Delaware and Arizona primaries constituted no triumphal march to the honour of going against Mr Clinton in November.

Before his victory in South Carolina last Saturday Mr Dole appeared an uninspired and ageing candidate, struggling to articulate even a few of the themes and visions of the future that US parties expect of presidential nominees, and at which Mr Clinton is so adept.

Even Tuesday's clean sweep of eight states had its sobering side for Mr Dole. Only in Rhode Island, where his principal challengers, Mr Pat Buchanan and Mr Steve Forbes, were not on the ballot, did Mr Dole score more than 60 per cent, then only in Maryland and Connecticut did he manage half the vote.

The consistent message of exit polls in all the states was of dissatisfaction among Republican voters with the quality of the field. In New England, in particular, too many for Mr Dole's comfort confessed they were thinking of supporting Mr Clinton in November. However, the new Republican heartland of the south was more reassuring.

Each of Mr Dole's Republican rivals enjoyed their brief days in the sun during the campaign. Mr Buchanan, certainly the most vivid and controversial campaigner, is not yet ready to call it quits. But he has again been shown, as in his 1992 run for the nomination, incapable of appealing to more than the 30 per cent of party members who are the most chronically angry and disaffected. The conservative pundit has a constituency among the religious right and the working class that Mr Dole cannot afford to lose in the general election. In the 1980s they were called Reagan Democrats and four years ago they found solace in the independent candidacy of Mr Ross Perot, who is still chirping in the wings.

Labelling Mr Buchanan an "extremist", as Mr Dole has done to some effect in the last week, does not endear the majority leader to these voters.

Mr Buchanan will demand to be heard at the Republican convention in August as his price for not quitting the party. The Republicans' Houston convention four years ago showed this to be a double-edged sword for the nominee.

Whatever else may be said of them, Mr Forbes, the millionaire publisher, and Mr Lamar Alexander, the former governor of Tennessee, tried to inject both ideas and a sense of optimism into the campaign, again in contrast to the conventionally dour Mr Dole. That has not proved enough for either.

Mr Forbes has probably exceeded general expectations of a complete political novice from a privileged background. He even improved as a campaigner as the primaries unfolded. But his backing also constitutes mostly a protest vote against the political establishment, as demonstrated in his lavishly financed negative assaults on Mr Dole's long record in public life.

Pat Buchanan: controversial campaigner not ready to call it quits

None of the candidates has so far succeeded in identifying an issue with appeal to the broader electorate. Mr Forbes gave the flat tax more public exposure than it has previously enjoyed. But he also exposed it to political ridicule by continuing to insist that mortgage interest tax deductions, that crutch of the property owning middle classes, must be jettisoned.

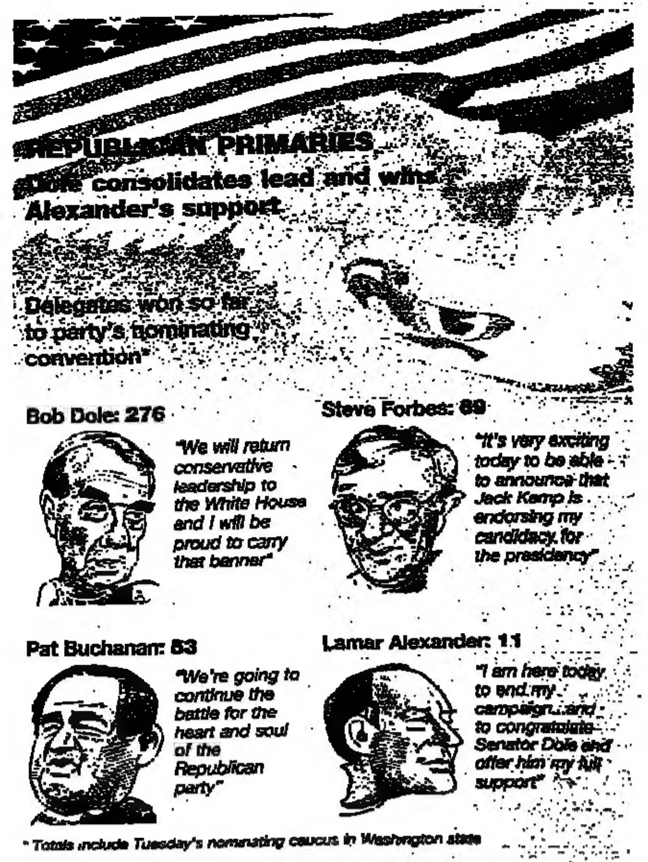
Mr Buchanan's moral absolutism, especially on abortion, still turns more people off than on. On Tuesday Mr Dole managed to split the religious right vote with Mr Buchanan, though partly as a result of his own more staunchly pro-life statements.

Mr Buchanan's populist economic melange of outright protectionism and attacks on US corporate greed have greater resonance. There is, however, more sympathy for Mr Buchanan's diagnosis of popular angst than for his prescriptions.

Mr Dole found his voice somewhat in the last 10 days only by returning to two familiar themes: the virtues of the balanced budget and the need for Republicans to focus on the imperative of throwing Mr Clinton out of the White House. He even managed to talk more about himself, his war record, his hard early life and the pride he takes in being a professional politician.

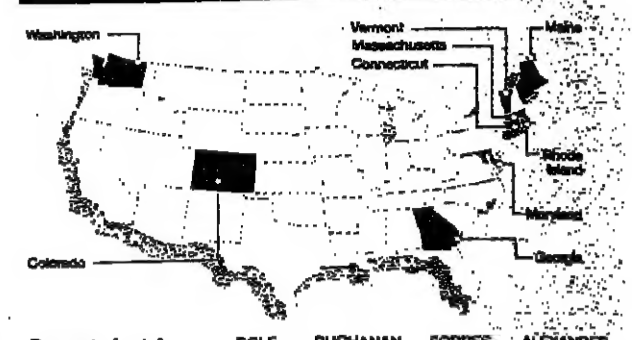
More will be heard of these themes as the primaries proceed along their allotted course, resuming in New York today. But it should not come as a total surprise if Mr Dole experiences some scares along this road, a lot which befell previous frontrunners such as Presidents Gerald Ford and Jimmy Carter.

But if his health holds up – he is 72 and his age is a constant issue with voters – Bob Dole, now the self-styled "comeback adult", ought to enjoy the weeks to come more than those before last Saturday in South Carolina. That is something for the man who could barely leave the ground in his previous attempts to win the nomination in 1980 and 1988.



* Totals include Tuesday's nominating caucus in Washington state

Tuesday's results



Per cent of vote*	DOLE	BUCHANAN	FORBES	ALEXANDER
Colorado	44	22	21	10
Vermont	41	17	16	11
Maine	46	25	15	7
Massachusetts	48	25	14	8
Connecticut	54	15	20	5
Rhode Island	67	**	**	20
Maryland	53	21	13	5
Georgia	41	29	13	13

*Based on counts in 100% of precincts in Rhode Island, Maryland and Georgia; 99% in Colorado and Connecticut, 97% in Maine, 93% in Vermont, and 87% in Massachusetts ** Not on ballot

Coming up

- Today 102 convention votes are being sought in New York primary
- Tuesday 353 delegates are at stake in six states: Texas (123), Florida (98), Oklahoma (38), Tennessee (38), Mississippi (33), Oregon (23)
- March/April/May State votes, caucus meetings and conventions continue until June 4
- August Winning the nomination requires securing 996 delegate votes at the mid-August national convention

Source: AFP, Reuter

Brazilian senate to investigate banking system

By Angus Foster in Rio de Janeiro

Brazil's senate yesterday announced a full investigation into the country's banking system, in what could become a significant setback for the government of President Fernando Henrique Cardoso.

Mr Cardoso has been trying to block the investigation in case it interfered with economic reforms he is trying to steer through congress. However, an opposition senator, Mr Antonio Carlos Valadares, yesterday collected enough support for a formal senate investigation to be instituted as soon as its members are chosen.

Mr Valadares, a senator for the Brazilian Socialist party (PSB) from the northern state of Sergipe, said the investigation would bring to an end the "disgraceful frauds such as happened in the cases of the Nacional and Economico banks".

Both banks were taken over by the central bank last year amid liquidity problems and allegations of wrongdoing. Mr Gustavo Loyola, central bank president, told the senate Tuesday the central bank had made mistakes monitoring the case of Banco Nacional, where an accounting fraud seems to have created fictitious loans and potential losses of several billion dollars in the last decade.

Mr Cardoso's supporters criticised the decision to set up the investigation, in case it destabilised confidence in Brazil's financial system and interfered with the government's social security and tax reforms in Congress. But Mr Valadares disagreed, and claimed: "What's destabilising the economy is the government's throwing money at broken banks".

The investigation has the power to call any witness it chooses and Mr Cardoso's opponents will try to use it to undermine confidence in the government. A similar investigation in 1993 into the government's budget almost brought congressional business to a standstill.

Mr Cardoso will now try various procedural manoeuvres to try to stop the investigation being instituted, or to ensure its key members are loyal government supporters. However, support for an inquiry seems to be growing in the lower house of congress, suggesting the government will have difficulty stalling the process.

One of the first witnesses likely to be called is Mr Loyola. Government members denied reports that the resignation of Mr Loyola, in office for less than a year, would be offered as a sacrifice to the opposition to stop the investigation continuing.

Mr Loyola, who is thought to be unhappy with his position and congress's continued attacks on the central bank, insisted during his testimony on Tuesday that the bank may have made mistakes but did not know about the alleged frauds at Nacional until the end of last year, several months after rumours of the bank's problems started to circulate.

Quality of assets in doubt, Page 18

Pascal Fletcher and **Stephen Fidler** on likely consequences of the tightening of the Cuba embargo

Move may not deter many foreign investors

A tightening of the US economic embargo on Cuba in retaliation for Havana's shooting down of two US civilian aircraft is likely to deter some potential foreign investors.

However, some foreign analysts believe prospects for investment on the island should not be seriously damaged if Cuba continues to reform its economy.

As part of Washington's response to the February 24 downing of the aircraft by Cuban MiG fighters, President Bill Clinton has said he will sign, probably next week, proposed legislation extending trade and investment sanctions against Cuba.

By expressing his readiness to endorse the proposed tougher legislation on Cuba, Mr Clinton effectively dropped his previous resistance to parts of the bill.

The Cuban Liberty and Solidarity Act, known as the Helms-Burton bill after its main Republican sponsors, threatens penalties against foreign companies and executives who "traffic" in property on the island expropriated from Americans, including Cuban exiles.

However, supporters of the bill have agreed to allow Mr Clinton to delay for six months implementation of the clause which threatens US lawsuits against companies or individuals who buy or lease expropriated former US property in Cuba.

If Mr Clinton does not exercise this right, the legislation threatens to bring about a number of high-profile US law suits.

For example, the Bacardi rum company may sue Pernod Ricard, the French liquor company which distributes Havana Club rum worldwide.

Bacardi says the rum is being made at its old distillery in Santiago de Cuba.

Other companies which are prominent investors on the island include BAT Industries, whose Brazilian affiliate Souza Cruz has a tobacco joint venture on the island; Sherritt International of Canada; the Anglo-Dutch group Unilever; the British agrochemicals group Zeneca, and Western Mining of Australia.

Some, such as Unilever, emphasise that their investment is using facilities built after the expropriations following the 1959 revolution and does not involve property owned by US citizens.

The uncertainty caused by the law may have as much impact as any lawsuits. But many investors in Cuba take a sanguine attitude.

"People don't see it as the end of the world," said Mr Peter Scott, chairman of Beta Gran Caribe, an investment company specialising in Cuba which includes shareholders from Europe and Canada.

Mr Antonio Briones Diaz, president of Spain's Tryp Hotels, which runs four state-owned hotels in Cuba, including the former Havana Hilton, said he did not think his group's investments would be affected, but "time will tell". Tryp's future plans include a project for two joint venture hotels.

"For us it's business as usual," said Mr Patrice Merrin Best, vice-president for corporate affairs at Sherritt International, which has nickel mining and oil exploration interests in Cuba and is one of the most prominent investors there.

Cuban officials said that the US legislation would not only hurt the Cuban economy by slowing its recovery, but that it would also eliminate any immediate prospects of a normalisation of US-Cuban ties, which have been characterised by hostility over the last 36 years.

European analysts, asked about the likely impact of the bill, remained relatively upbeat about the long-term prospects for foreign investment on the island, and even about prospects for an eventual lifting of the embargo in the next US presidency. "I think the Helms-Burton bill will put some people off but there is a hard core of serious interest that will remain," said Mr Steven Hawkyard, a trader for the Emerging Markets Group of Standard Bank London.

"This incident is not seen as having a long-term impact on prospects... There are attractive investment opportunities in Cuba and I don't think the US can do much about that," said Mr Jerome Booth, head of emerging markets research at ANZ, International Merchant Banking, in London.

Investors who might be deterred by the tougher US legislation could include Canadian companies, particularly smaller ones, which were traditionally sensitive to US policy, and also large multinationals with extensive business interests in the US, analysts said.

Canadian companies can expect strong support from their government, which is leading international opposition to the Helms-Burton legislation. The European Union and Mexico also strongly oppose it. Mr Art Eggleton, Canada's trade minister, told the US government it was over-reacting to the aircraft incident and said the Cuba bill would create a "dangerous precedent".

Many analysts said that, given the strength of this opposition, the Helms-Burton legislation might be unenforceable and would be widely challenged in the courts. Lobbying by the US business community against the US embargo on Cuba was expected to continue.

Mr John S Kavulich, whose New York-based US-Cuba Trade and Economic Council has organised several fact-finding trips by US businessmen to Cuba, said that as long as the island continued to reform its economy, "the interest of the US business community will not change one iota".

Canada, Spain and Mexico have spearheaded the foreign investment drive in Cuba since 1990, following the collapse of Cuba's ties with the former Soviet Union. Cuban officials say total foreign investment commitments in tourism, mining, telecommunications and other areas now top $2bn, but foreign analysts believe only about a quarter of this may have actually been disbursed.

Even in the eyes of countries which have no political objections to investing in Cuba, Havana's action in shooting down the aircraft will damage its recent efforts to present itself as a state which has finally shed its cold war identity and is intent on improving its international image.

"In the modern world, you do not expect to see sovereign states shoot down civilian aircraft just for entering their airspace," one European Cuba watcher said.

Editorial Comment, Page 13

MAIN PROVISIONS OF THE US CUBAN ACT

Main provisions of the Cuban Liberty and Solidarity Act:

● The legislation gives Cuban-Americans and other US citizens the right to sue in US courts for damages from foreign users of property worth more than $50,000 confiscated by the Castro government since January 1 1959. The provision is aimed at halting foreign joint ventures with Cuba.

● The president may suspend this right for periods of six months by certifying it is in the US national interest and will expedite transition to democracy in Cuba.

● The bill bars from entry into the US aliens using confiscated property claimed by a US national, officers or shareholders with a controlling interest in companies "trafficking" in expropriated properties, and their families.

● It puts into law past sanctions imposed by presidential order and allows them to be suspended after a transitional Cuban government is in place. Transitional government would be required to have legalised all political activity, released political prisoners, dissolved the state security apparatus and made a commitment to free and fair elections. The bill gives Congress a role in deciding to suspend sanctions.

● It requires aid to former Soviet states to be withheld equal to their aid and credits for intelligence facilities in Cuba.

● It requires US executive directors of international financial institutions such as the World Bank to oppose loans or financing for Cuba and Cuban membership until a democratically elected government is in power.

● It withholds US aid to any country supporting completion of nuclear facilities in Cuba equal to the amount of its nuclear aid and credits. *Reuter*

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NEWS: WORLD TRADE

Kantor declares war on bribes

By Nancy Dunne in Washington

Mr Mickey Kantor, US trade representative, yesterday launched an attack on bribery and corruption in international transactions and suggested the US might deem them an "unfair trade practice" punishable by US trade sanctions.

"We want to eliminate unfair trade where it exists," Mr Kantor said. "Make no mistake: when a nation ignores bribery and corruption, it constitutes a barrier to trade."

He said the US wanted "to turn up the heat" to get corruption addressed in regional and multilateral trade organisations. If the matter was dealt with effectively between trading partners, the US might refrain from unilateral action, he said.

Mr Kantor was yesterday due to raise the subject with the House ways and means committee, where he expected bipartisan support. He noted that in a report last year the US government learned of almost 100 cases between April 1994 and May 1995 in which bribes had undercut US companies competing for $45bn (£29.2bn) in contracts.

In a speech to business executives, Mr Kantor noted bribery and corruption had often been accepted internationally as necessary business expenses or as "a cultural phenomenon". But bribery was out of place in the competitive global economy and threatened the health of the trading system. Tolerating corruption affected the credibility of the trading system and eroded public support for liberalised trade.

The first target in Mr Kantor's sights is tax laws. He said tax provisions in Germany, France and 12 other unspecified countries enabled companies to write off bribes as tax deductions. Members of the Organisation for Economic Co-operation and Development recently agreed to prohibit such deductions, but Mr Kantor wants industrialised countries to go further and pass laws to criminalise foreign bribery. The US is the only country which punishes bribery of foreign officials.

In the World Trade Organisation the US is seeking to establish a working programme on government procurement to promote transparency and fair procedures. "By negotiating and agreeing to such rules, we would begin to create a more competitive environment in which it would be difficult for bribery and corruption to flourish," he said.

The US will push for an expansion of the WTO's government procurement agreement, with its "rigorous disciplines," to include many key markets in Asia, the Americas, and eastern and central Europe.

Airline insists letter to Boeing over aircraft's teething troubles was routine

United sees 'problems' with 777

By Michael Skapinker, Aerospace Correspondent

United Airlines of the US yesterday described as "routine" a letter it had written to Boeing complaining about difficulties with its new 777 aircraft.

United was the first airline to begin commercial service with the Boeing 777 last year. The twin-jet aircraft carries up to 400 passengers. United said yesterday that some of its 10 Boeing 777s had experienced problems, particularly in January, which had led to delays and cancellations. It said none of the technical difficulties had affected the safety of the aircraft.

The airline said it had written a strong letter to Boeing outlining the problems because it wanted to ensure that the manufacturer devoted sufficient staff to dealing with the difficulties. United said one of the causes of the problems was that a 10-week strike at Boeing last year had meant that several aircraft had been delivered in quick succession, reducing the amount of time available to eliminate teething difficulties.

United said: "It's fairly standard when you get a new aircraft that you have some problems and some things that you want to change."

Boeing said 97.5 per cent of 777 flights took place as planned last year.

The company said: "This is higher than for any other aircraft we've ever done."

It added that some of the technical problems mentioned by United had already been solved.

The design and manufacture of the Boeing 777 was meant to reduce the number of problems when the aircraft went into service. Boeing invited eight airlines, including United and British Airways, to help design the aircraft. United said it hoped to avoid the large level of technical faults it had found when the Boeing 747 entered service.

BA, which operates two Boeing 777s, experienced difficulties with the General Electric engines which power the aircraft, although these problems are now resolved. The British carrier said yesterday that it was happy with its 777s.

BA said: "It's been one of the easiest aircraft we've introduced. You get some teething problems on a new aircraft but they've been fewer on the 777 than on other aircraft."

Narrow-bodied jets to take 70% of market

By Michael Skapinker, Aerospace Correspondent

Almost 70 per cent of new aircraft ordered over the next 20 years will be narrow-bodied jets carrying fewer than 230 passengers, Boeing of the US said yesterday.

The forecast, carried in Boeing's annual survey of the aircaft market, comes as the US company and Airbus Industrie, its European rival, study plans for the introduction of "super-jumbo" jets with 550 seats or more.

Boeing said it expected airlines to spend $1,100bn on 15,900 aircraft between now and 2015, of which only 10 per cent would be of the size of a Boeing 747 or larger. A 747 carries about 400 passengers. Even measured by value, larger aircraft would account for only 23 per cent of airline spending on aircraft over the next two decades.

Boeing plans to build an extended version of the 747 – the 747-600X – capable of carrying over 500 passengers. Airbus is studying the development of the A3XX, which could carry 550 or more.

Boeing said the demand for large aircraft would become more apparent after 2015 than it is today. The Boeing 747 accounts at present for three-quarters of capacity on flights across the Pacific and between Asia and Europe.

Across the North Atlantic, however, the 747 accounts for only one-third of seats.

Boeing said the demand for an aircraft larger than the 747 would come largely from the Asia-Pacific region where airports were congested and flight frequencies were limited by international agreements. By 2015, these problems would become more acute, Boeing said.

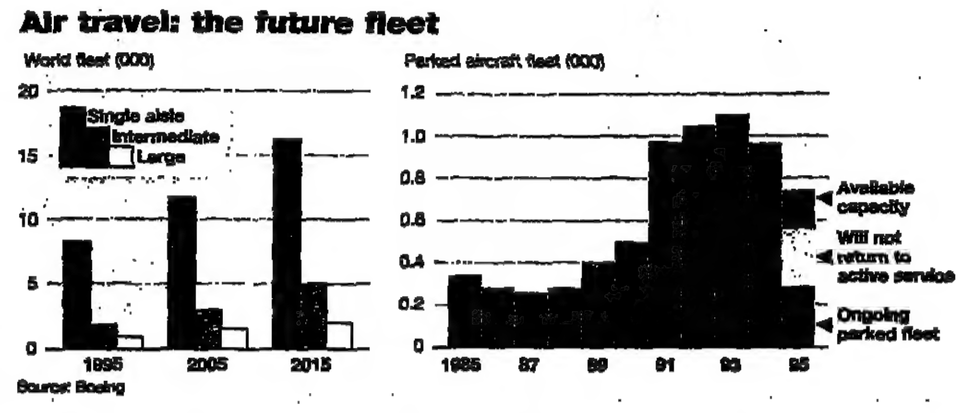
Smaller single-aisle aircraft would account for 68 per cent of deliveries by 2015, Boeing said. In value terms, smaller aircraft would make up 41 per cent of airline spending.

China is expected to be one of the biggest markets for single-aisle aircraft, for use on domestic routes and shorter regional flights.

This follows the pattern of the US, whose airlines are among the biggest buyers of small aircraft. The aircraft are used on "hub and spoke" systems, where passengers are flown from smaller towns and cities to large airports where they catch connecting flights. Smaller aircraft are also used by low-cost carriers providing budget flights between cities.

Boeing said Europe would become a bigger market for single aisle aircraft as the aviation market was liberalised, although some passengers would be lost to high-speed train services.

The fast-growing segment of the market, however, will be intermediate-sized aircraft, such as the Boeing 777. These will account for 22 per cent of deliveries and 36 per cent of spending by 2015.



Lease finance group orders 38 Airbuses

By Michael Skapinker

Airbus Industrie, the European manufacturing consortium, yesterday won back some of the ground it has lost to Boeing of the US over the past year by taking the larger part of an order from the International Lease Finance Corporation.

ILFC, the Los Angeles-based leasing company, said it was ordering 38 Airbus aircraft, with options on eight more. The company is also buying 18 Boeing 777s, with options on two more.

The total value of the purchases is about $6bn at the aircraft list price. There has, however, been a substantial level of price discounting in the aircraft market over the past year.

Engine orders for the aircraft went to all three of the world's large manufacturers: General Electric and Pratt & Whitney of the US and Rolls-Royce of the UK.

ILFC is to buy 26 wide-body A330 and A340 aircraft, of which 12 are the ultra long-range four-engined A340-300s. The leasing company is also buying 12 single-aisle Airbus aircraft: three A319s, six A320s and three A321s. ILFC has also taken options on eight aircraft, five from the A330/A340 family and three single aisle jets.

The order comes after Airbus lost two important contests to Boeing in the Asian market. Singapore Airlines last year ordered 77 Boeing 777s in preference to Airbus aircraft. Earlier this year Malaysia Airlines ordered 15 Boeing 777s and 10 Boeing 747s.

In 1994, Airbus – which is owned by Aérospatiale of France, Daimler-Benz Aerospace of Germany, British Aerospace and Casa of Spain – won more orders than Boeing for the first time.

Last year, however, the European consortium fell behind both Boeing and McDonnell Douglas of the US in the number of orders won.

Airline analysts, however, had said that the European consortium could not be counted out of future airline contests and would continue to occupy a prominent position in the aircraft industry.

The Airbus deliveries to ILFC are due to begin in May next year.

ILFC will begin taking delivery of the first of the 18 Boeing 777s in 1999. The announcement brings to 24 the number of Boeing 777s ordered by ILFC.

WORLD TRADE NEWS DIGEST

ILO chief's protection fear

Nations are increasingly likely to turn to protectionist measures unless international agreement can be reached on minimum labour standards, Mr Michel Hansenne, director-general of the International Labour Organisation, warned yesterday. But he admitted there was no likelihood of any social clause being written into global trade agreements in the near future. "Those who advocate this should not expect this can be done quickly or easily", said Mr Hansenne. "It took many years to tie up the Uruguay round and establish the World Trade Organisation."

In a speech to a conference in Britain Mr Hansenne said the issue of social clauses would not "fade away" as trade continued to be liberalised. There was a growing risk some countries or trading blocs might decide to make their own rules by introducing unilateral trade sanctions and restrictions on development aid or financial flows.

Mr Hansenne said workers who felt their jobs and livelihoods were being threatened by the opening of markets would be "extremely sensitive to competition they perceive as unfair, as based upon the exploitation of other workers." He said consumer boycotts would also be hard to avoid. Consumers would be increasingly reluctant to purchase goods produced by forced labour or child labour.

The ILO governing body will meet in a fortnight to discuss a number of options including the introduction of a code of principles on matters such as health and safety for ILO member states. *Robert Taylor, Employment Editor*

Nigeria completes LNG sales

Nigeria Liquefied Natural Gas has signed a contract in Madrid with Enagas to supply 0.6bn cubic metres of gas a year. The deal completes the marketing for the $3.8bn Nigeria LNG project, which will produce 7.05bn cubic metres of gas a year. At least half will go to Italian state utility Enel, and the remainder to Enagas, Botas of Turkey, and Gaz de France.

The Italian government has yet to decide on the site for the gas terminal. Unless there is approval for the site at Monfalcone, on the east coast, by mid-May it will revert to the original proposal, at Montalto di Castro on the west coast, which was opposed by local environmentalists.

Doubts over the Nigeria LNG project were resolved last December when its partners – Nigeria National Petroleum Corporation, Shell, Agip and Elf – signed the main equipment and engineering contracts with a consortium led by Kellogg of the US. Civil construction by German contractor Julius Berger has begun at the site close to Bonny, near Port Harcourt in south-east Nigeria. *Paul Adams, Lagos*

Albania to update power grid

The World Bank is to lend Albania $29.5m to modernise its system of electricity transmission and distribution by the year 2001. Albania's ancient power distribution system has been seriously strained with the influx of household electrical appliances.

The Swiss government will also sign an agreement tomorrow to give Albania $9m for the modernisation of a power transmission facility in the port city of Durres. Other co-financiers of the project include the European Bank of Reconstruction and Development, Italy and Japan. Albania, through its state power company, KESH, is expected to contribute $25m to the project. Through the modernisation programme, Albania expects to increase exports of electricity, reduce the loss of power during transmission and begin the privatisation of the power sector. *Marianne Sullivan, Tirana*

■ Swedish telecoms group Ericsson has won an order worth SKr400m ($59m) from Guangxi Posts and Telecommunications Administration to expand its mobile telephone networks in China. *Reuter, Stockholm*

Foreign investors give former Soviet bloc nations a miss

By Nancy Dunne in Baltimore

Foreign investment into the former Soviet bloc countries is lagging behind a targets of $200bn (£130bn) by the year 2000, according to a draft report released yesterday at the fourth West-East conference of ministers meeting in Baltimore, Maryland.

The conference is the latest official meeting in a process to improve government rules, laws and policies affecting commerce and investment between the industrialised and reforming countries.

The draft report estimated that $28bn of foreign investment has taken place to date. To achieve the goal of $200bn by the year 2000, set in May 1994 in Warsaw, investment would have to increase sharply – at roughly six times the current annual increase.

"While important steps have been taken to increase the flow of foreign investment, it was noted these efforts had to be accelerated greatly," the report said. "Foreign companies still face formidable legislative, infrastructure and bureaucratic barriers in many parts of the reforming region."

The ministers said the period of declining output was over in many reforming countries. In others economic decline was continuing but there were signs of stabilisation.

Business executives met in a parallel session. They urged the governments to foster development of the private sector credit-rating procedures for domestic companies to seek greater stability and predictability in taxation regimes.

Industrial countries should develop a comprehensive multilateral system to provide political risk insurance for investment in the eastern bloc countries.

Mr Ron Brown, the US commerce secretary, called on ministers to take immediate steps towards restoring economic and commercial ties with Bosnia and the Balkans.

He said he would be visiting Bosnia and Croatia next month as part of a Clinton administration effort to build peace and stability in the region. "Revitalising Bosnia will be difficult, if not impossible, without the renewal of traditional trade and investment links," he said.

The secretary called for a "special experts" meeting involving representatives of the industrialised nations and central and eastern Europe to address specific economic and commercial considerations that will pave the way for new investment in the region.

He said US business would compete for contracts from such investment.

NEWS: ASIA-PACIFIC

Japan seeks greater forex stability with Asian loan plan

By William Dawkins in Tokyo and Lionel Barber

The Japanese government, the world's largest holder of foreign currency, is considering lending reserves to some neighbouring Asian countries to help combat foreign exchange instability.

The Bank of Japan, with encouragement from the finance ministry, is studying whether to join a series of bilateral securities repurchase accords made last November between the monetary authorities of Australia, Hong Kong, Indonesia, Malaysia and Thailand, senior officials say.

These so-called repo accords enable central banks to borrow foreign reserves from each other against collateral, in the form of US treasury bonds. The amounts are not large and the arrangements bring only a small technical advantage, since central banks can equally borrow from commercial banks.

Such accords are an example of the greater regional co-operation increasingly sought by central banks in Asia since early last year, when some of the region's currencies suffered speculative attacks.

During the same period the yen was pushed to a record high, almost causing Japan's export-sensitive economy to fall back into recession.

The first opportunity for Japan to announce a decision would be when finance ministers of the 18 members of the Asia Pacific Economic Co-operation council meet in Kyoto on March 16 and 17.

Mr Eisuke Sakakibara, director-general of the Japanese finance ministry's international finance bureau, confirmed Japan was "interested" in the Asian repo accords and that Apec finance ministers would discuss, in general terms, greater co-ordination between central banks with a view to reducing exchange rate instability.

The aim would be to avoid "unnecessary volatility" between the yen and dollar-linked Asian currencies, he added.

Such an agreement would also make it easier for Japan to assist any emerging Asian economy that might be hit by a Mexican-style currency crisis, added Mr C H Kwan, senior economist at Nomura Research Institute. He said it was likely Japan would join the repo accords.

The need to curb the gyrations of the yen has been a perennial headache for Japan. It grew acute last year when the yen touched a record Y79.75 to the US dollar in April, 25 per cent above its level at the turn of the year. Since then it has slid to around Y105.

Changes in the yen/dollar rate have also become a growing problem for Asian countries, which hold substantial loans from Japan in yen, repaid from assets held in dollars, an uncomfortable mismatch.

Closer co-ordination between Asian central banks had few advocates until last September, when Mr Bernie Fraser, Reserve Bank of Australia governor, called for a regional central bank forum, modelled on the Basle-based Bank for International Settlements, whose members include central banks of the Group of Ten industrialised countries plus Switzerland. Japanese officials welcome the proposal for an Asian BIS, also likely to be discussed at the Kyoto meeting, but believe its formation is a long way off.

Another step is a deal by which Hong Kong and Singapore monetary authorities intervene in foreign exchange markets on the Bank of Japan's behalf, an extension of an existing arrangement with Australia.

● The lower house of Japan's parliament yesterday again postponed voting on the 1996 budget as the opposition refused to end a three day blockade of the budget committee chamber, Kyodo adds.

Stronger HK growth forecast

By John Ridding in Hong Kong

Hong Kong's economy is expected to see stronger growth this year and will return to a budget surplus after the deficit recorded in 1995-96, Mr Donald Tsang, financial secretary, said yesterday.

Announcing his maiden budget, the last full-year budget to be presented before China resumes sovereignty of Hong Kong, Mr Tsang predicted real growth in gross domestic product of 5 per cent for 1996. A depressed retail and property market limited expansion to 4.6 per cent last year.

Mr Tsang predicted a surplus of HK$1.6bn (£134.4m) for the current financial year, against a deficit of HK$2.5bn in fiscal 1995, the first for 13 years. He described the achievement of a balanced budget as one of his main priorities.

"It is a psychological matter. People are not used to deficits," he said. "So a balanced budget is conducive to a smooth transfer."

The robust state of Hong Kong's finances was illustrated by the colony's forecast fiscal reserves. At the end of March next year, three months ahead of the handover to China, these reserves are expected to total HK$150bn. By March 2000, total reserves are forecast to exceed HK$365bn.

The financial secretary said Hong Kong was determined to defend its currency peg to the US dollar and would firmly resist any speculative attacks. "We have the resources," he said, referring to foreign exchange reserves of US$57.2bn (£38bn) at the end of last year, a rise of 12 per cent on the beginning of 1995.

Emphasising the rise of Hong Kong's service industries, Mr Tsang outlined a series of measures and proposals to strengthen the territory's competitive position.

These ranged from specific tax breaks concerning certain financial products to a broader drive to stimulate exports of services.

"The time has come to give the services sector the place it deserves in our economic policies," he said.

His fiscal stance remained cautious. Mr Tsang left the corporate profits tax rate and the salaries tax rate unchanged at 16.5 per cent and 15 per cent respectively. He proposed an increase in the basic tax allowance from HK$79,000 to HK$90,000.

Regional rivalry finishes laisser faire

China's impending takeover looms over Hong Kong's budget. **John Ridding** reports

Mr Donald Tsang, Hong Kong's financial secretary, has a penchant for bright bow ties with his conservative suits. Similarly, his maiden budget was marked by a few eye-catching flourishes amid a framework of prudent fiscal policy.

The flourishes, which included specific supports for areas of the financial sector and broader backing for trade, services and high value-added manufacturing, were significant. They marked a recognition of the rapid shift in Hong Kong's economic structure to a mature services centre and an awareness of the rising competition from financial centres elsewhere in the region.

But the financial secretary was wrestling with a second concern: the need for stability before the transfer to Chinese sovereignty next year. The overall fiscal prudence, which will see a forecast surplus of HK$1.6bn (£134.4m) this year, demonstrates a desire not to rock the boat ahead of the handover. It also shows a basic confidence in the state of Hong Kong's economy and its competitive prospects.

"We are not departing from non-intervention, but we are no longer laisser faire," said Mr Tsang, referring to his proposals. These include a commitment to strengthen Hong Kong's position in the export of services and to attract inward investment in service industries.

Donald Tsang adjusts his bow tie before yesterday's speech Reuter

On financial services, he was more specific. To stimulate the debt market, while improving the structure of banks' balance sheets, Mr Tsang outlined plans to create a Hong Kong mortgage corporation. The Federal National Mortgage Association of the US has been retained to help in a study for the project.

In addition, interest income and trading profits derived from certain debt instruments, with a maturity of five years or more, will receive a tax break equivalent to half the normal profits tax rate. Mr Tsang also pledged to eliminate uncertainty in the tax regime for offshore funds.

The tone of the speech was welcomed. "It was important it looked beyond 1997 and recognised the future here is with services," one trade executive said.

Mr K C Kwok, chief economist for north-east Asia at Standard Chartered Bank, believes the mortgage corporation could emerge as a significant financial institution in the region. He said the potential for securitising mortgage assets, representing more than 30 per cent of assets at some of Hong Kong's banks, could boost the bond market while reducing the existing imbalance between long-term assets and short-term deposits.

But for some, the steps did not go far enough. "The measures were pretty limited," said Mr Jefferson VanderWolk at Deloitte Touche Tohmatsu, the accountancy firm.

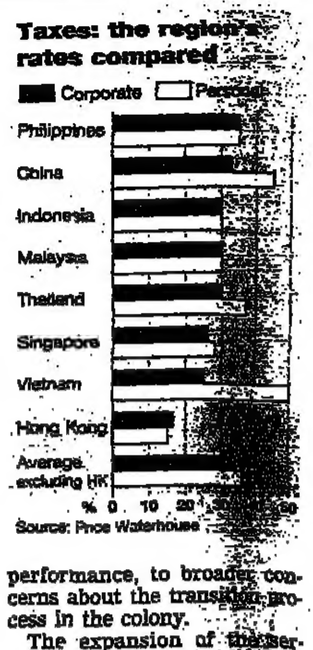
He believes stronger tax incentives are needed to fend off competition from regional rivals, notably Singapore, which last month unveiled a budget brimming with tax cuts to add to its existing fiscal incentives for business.

In Hong Kong, the rate of profits tax and salaries tax, accounting for about 40 per cent of revenues, was left unchanged.

Mr Tsang is facing criticism from other quarters. Increasingly vocal democratic politicians are pushing for extra spending on welfare and a stimulus to boost the lacklustre economy.

China, by contrast, is grumbling about the extra spending and claims that Hong Kong is spending too much from its kitty. The financial secretary has no qualms about the health of reserves that China will inherit and is relatively optimistic about economic prospects. In his view the downturn in the retail and property markets has stabilised; growth is forecast to pick up in the second half on stronger consumption and continued robust exports.

But it is not all plain sailing. Important questions remain: from whether the US continues to grant China Most Favoured Nation status, which will determine Hong Kong's trade performance, to broader concerns about the transition process in the colony.



The expansion of the services sector, which accounts for more than 70 per cent of GDP, and the corresponding rise in people-based industries, leaves Hong Kong more exposed to a downturn in sentiment or shaken confidence.

Mr Tsang is optimistic the drafting of next year's budget, which will be discussed with his Chinese counterparts, can be achieved smoothly. But broader political issues relating to the transition are in other people's hands. It is those issues, more than Mr Tsang's budget, that will determine whether Hong Kong's economy keeps humming.

China 'on track for growth and inflation goals'

China this week released a mass of economic data to its annual parliamentary session to support claims it is on track to achieve economic growth and inflation targets.

But despite optimistic forecasts, analysts foresee big challenges in restraining price rises to less than 10 per cent while maintaining growth at 8-10 per cent.

Political and economic pressures are building for a further easing of credit to lossmaking state enterprises, thus threatening monetary targets. Chinese policymakers also face the additional pressure over the next year of wanting the economy to perform strongly to herald the resumption of sovereignty over Hong Kong in mid-1997.

The fact that 1996 is the first year of the new Ninth Five Year plan is also likely to be weighing heavily with policymakers. The beginning of a five year plan tends to coincide with a surge of investment as new projects come on stream.

Mr Zhu Rongji, vice premier in charge of the economy, would be mindful that careful efforts to restrain credit expansion in order to bring inflation down while maintaining robust economic growth will be in for a buffeting. In fact, since last October the authorities have begun easing credit selectively, partly in response to pressures to assist state enterprises.

But Chinese policymakers are also responding to concerns that growth may slow too much. They are increasingly worried about unemployment which is rising rapidly in centres of heavy industry where lossmaking state enterprises are concentrated. China admits to an unemployment rate of about 3 per cent among industrial workers, but the figure is probably closer to 10 per cent, and perhaps higher in the north-east.

"The Chinese don't have a good sense of how far to go with their tight money policy," said a western economist in Beijing. "They don't have a good grip on data of what's actually going on. They are at a difficult point in their anti-inflation fight."

Pressures from the ailing state sector appear to have persuaded the government to increase sharply this year the allocation of funds for capital spending, according to figures supplied by Mr Chen Jinhua, minister in charge of the State Planning Commission.

Of the total allocation of Yn2,100bn (£165bn), Yn1,400bn will go to state enterprises, a 30 per cent increase over last year. "The figures seem to imply a steady flow of investment to a relatively non-productive sector," said the western economist. "This will make inflation a little more difficult to manage."

Pronouncements by Mr Chen and Premier Li Peng about China's plans for state enterprise reform skated over the problem of enterprise debt (a huge burden on the Chinese economy, and a drag on efforts to commercialise the banks).

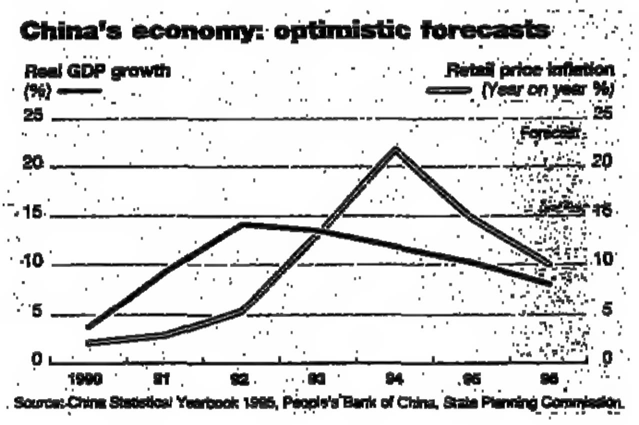
Mr Wang Dayong, head of economic forecasting at the People's Bank, China's central bank, said that while the macro-economic figures looked "good" with inflation down to an expected 10 per cent this year from more than 20 per cent in 1994, and growth at acceptable levels, this did not tell the whole story.

So-called "triangular debt", the inability of enterprises to pay each other for goods and services, increased by Yn170bn last year to Yn800bn, according to a survey of some 300,000 businesses across China. But the figure may well be closer to Yn1,000bn, since the survey was by no means exhaustive.

"The triangular debt problem affects every enterprise. It also affects the banks and the financial system," said Mr Wang. He attributed part of the problem to the lack of a strong legal framework which enabled enterprises to avoid honouring obligations.

Mr Wang, in remarks candid for a People's Bank official, said the economy had contracted too quickly in the first half of last year, and this was a matter for concern. "The bank does not want the economy to slow too quickly," he said.

Chinese economists share these worries. Mr Fan Gang, secretary general of the China Economic Reform Foundation, a privately-funded "think tank", said the authorities had moved a "bit too late" to ease credit last October. He expects growth to slow to about 8 per cent in the first half of this year, and believes China can get away with growth of about 10 per cent without paying a high price in inflation.



Western economists tend to agree with these assessments, although they note that credit targets for the year – the target for M2 growth is 25 per cent – don't give the impression that monetary policy is overly tight.

But they note that while the authorities talk about 8 per cent growth, they would really be quite happy with 10 per cent. This might require further easing of credit around the middle of the year.

"They are concerned about inflation, but they are also worried about a slowdown in output," said one. "At the practical level they may have to show more flexibility."

Tony Walker

Flotilla to sail into area of Chinese missile tests

Taiwan plans sea protest

By Peter Montagnon and Laura Tyson in Taipei

Taiwan's leading opposition party is planning a Greenpeace-style protest against Chinese missile tests by sailing boats into the earmarked sites in an attempt to disrupt the exercise.

Mr Chiou I-Jen, Democratic Progressive party secretary-general, said Mr Peng Ming-min and Mr Frank Hsieh, the party's candidates for president and vice-president in elections later this month, were likely to join senior party figures on board the boats.

Politicians from other parties would also be invited, but the project depended on finding pilots and crew willing to take the risk; the protest might last only for a day in each of the two sites near the busy ports of Kaohsiung and Keelung.

"Under threat of invasion, we should not pass any message to encourage the hardliners in Beijing. We must stand firm," Mr Chiou said.

The party would call for an immediate military response if, as some in Taipei fear, China decided to step up pressure further by seizing an uninhabited island under Taiwanese control. "It would be a declaration of war and we should counter-attack. If we could tolerate that, Taiwan doesn't have any hope for sovereignty at all."

The stock market fell a further 1.3 per cent yesterday as traders remained nervous because of the tests. Brokers said it was 2 per cent down at one stage and recovered only because of support buying under the government's stabilisation programme.

Taiwanese are concerned the trajectory of the missiles headed for the Keelung site may take them over the northern part of the island of Taiwan. This would be "reckless in the extreme," one defence analyst said. Even though the missiles were to be unarmed, it increased the risk of an accident.

Mr Chiou said he expected the tests, due to run for a week from tomorrow, would enhance electoral support for President Lee Teng-hui. This was because many of the 40 per cent of undecided voters believe he has the strength to stand up to China and some consider he secretly supports independence, despite assertions to the contrary.

Howard's team in pay clash

By Nikki Tait in Sydney

Australia's newly elected Liberal-National coalition government, which has yet to be sworn in, was yesterday already at loggerheads with one of the country's more powerful unions over wage increases.

The Australian Metal Workers Union has indicated it will push for a 15 per cent pay rise over two years for workers who are covered by decentralised "enterprise agreements" when these come up for renewal.

It said the claim has been increased because the wages accord which used to exist between the former Labor government and the unions no longer applies.

The accord, under which unions promised a degree of wage restraint in return for the government furthering certain social objectives, included provisions for specific "safety net" wages increases.

Yesterday, Mr Peter Reith, the coalition's spokesman on industrial relations, claimed the push was unjustified because the coalition was committed to safety net wage increases for those on lower wages. "We are committed to the continuing jurisdiction of the Industrial Relations Commission to grant safety net wage increases for the low-paid," he said.

He also suggested that elements within the union movement had differing views on how to deal with the new government.

The executive of the Australian Council of Trade Unions is due to meet next week to consider the issue.

Liberal MPs held their first party meeting since the election. Mr John Howard, prime minister-elect, again warned against complacency arising from the large majority the coalition won last Saturday.

"We ought to remember the Australian people can cut us down just as brutally as they cut the present government down if we don't deliver good government," he said.

UN to end Vietnam asylum plan

By Frances Williams in Geneva

The United Nations refugee agency yesterday confirmed its programme for more than 16,500 rejected Vietnamese asylum-seekers in south-east Asia will end on June 30. After that date, they risk deportation by the governments concerned.

Though no deadline has been set for the nearly 20,000 rejected asylum-seekers in Hong Kong, China has said it does not want any to remain when it repossesses the colony on July 1, 1997.

Mr Alexander Casella, Asia director for the UN High Commissioner for Refugees, said in Geneva yesterday that non-refugees had no alternative but to return to Vietnam.

"There will be no resettlement and no rescreening," he told a news conference after the final meeting of the inter-governmental steering committee set up in 1989 to oversee the plan of action for Indochinese refugees.

US officials told the meeting the government planned to expand an existing programme for resettlement of returnees "who may be of special humanitarian interest" to the US.

More than 77,000 non-refugees have already returned voluntarily to Vietnam, where their safety and that of other returnees will continue to be monitored by the UNHCR.

Another 74,000 recognised refugees who fled Vietnam and Laos have been resettled in third countries, while over half a million people have left Vietnam legally under orderly departure programmes.

US report assails China on human rights

By Patti Waldmeir in Washington

A US State Department report published yesterday suggests that US policy toward China has failed to bring about improvements in the country's human rights record.

The report, which covers every country outside the US and is published annually, criticised a number of governments for maintaining "familiar patterns" of human rights abuse last year. It also noted progress last year towards resolving some of the crises, including Bosnia.

Yesterday's report, for 1995, concluded that widespread abuse of human rights continued unabated in many countries. "The pages of this volume document innumerable instances of extra-judicial killings, disappearances, torture, arbitrary detention and denial of fair trial in all parts of the world," it said.

Some of its harshest language was reserved for China, whose government had stepped up repression of dissent in 1995.

"By year's end, almost all public dissent against the central authorities was silenced by intimidation, exile or prison terms or administrative detention." China continued to commit "widespread and well documented human rights abuses, in violation of internationally accepted norms", the report said.

The report made clear that US policy toward China, which relies on economic growth and trade to bring greater freedom for the Chinese people, had not worked. Despite economic reforms, Beijing continued to disregard basic human rights.

"The experience of China in the past few years demonstrates that while economic growth, trade and social mobility create an improved standard of living, they cannot by themselves bring about greater respect for human rights in the absence of a willingness by political authorities to abide by the fundamental international norms," the report said.

Use of satellites, telephones, faxes and the Internet had created a more open society in China, but government restrictions on Internet access were threatening this trend.

Until 1994, US trade with China was directly linked to Beijing's human rights record, but President Bill Clinton dropped the linkage, arguing that expanded trade would open China to western influences and improve human and political rights.

Russia was also criticised. The report cited "continued and widespread use of Russian military force against civilians in Chechnya... and the continued violation of rights and liberties by security forces".

Cuba's human rights record was described as "deplorable", while Nigeria's government "continues ruthlessly to repress dissent", the report said.

Turkey was also cited for "serious" abuses, including restrictions on freedom of expression and excessive use of force against Kurdish civilians. Egypt was singled out for its campaign against Islamic extremists and Mexico criticised for extra-judicial killings by police and illegal arrests. Saudi Arabia, Colombia, Indonesia, Guatemala, Burma and North Korea were also censured.

Egyptians get serious about economic reform

The land of the Pharaohs is out to persuade foreign investors that it is an emerging market to watch

Egyptians like to boast about their long and rich history. Ministers often start speeches with a nostalgic reference to ancient Egypt as a "cradle of civilisation". Business leaders never tire of talking passionately about the country's human resources. "Don't forget we built the pyramids," remains a long exhausted refrain.

As Egyptian business leaders and government officials gather today in New York for a two-day conference – co-hosted by merchant bankers Goldman Sachs and the American/Egyptian chamber of commerce – to persuade hard-nosed US fund managers, investment bankers and company directors that the land of the Pharaohs is an emerging market to watch, there will be the usual platitudes about the country's ancient history.

Nevertheless the Egyptian delegation will be expected to get across a new spirit of determination to tackle Egypt's economic problems which has been created and so far sustained by the appointment of Mr Kamal el-Ganzouri as prime minister in January.

"We are very proud of our history but this is no longer enough," said Ms Nawal el-Tatawi, the new minister for economy. "We have to look seriously at where we are now and remove the impediments to real and sustainable growth... we don't have any more time to lose."

Egypt is not an easy sell. Despite a successful programme of financial stabilisation since economic reforms began in 1991, backed by the International Monetary Fund, World Bank and western donor countries, the country still faces the Herculean task of slimming down its bloated public sector and encouraging private sector development.

Behind the need for deep structural reforms are Egypt's chronic social problems of unemployment – which unofficial estimates put at 20 per cent – and the alarmingly skewed pattern of income distribution which leaves about 6m of the 60m people with an income of less than $1 a day.

The government has set itself an ambitious annual growth target of more than 7 per cent. But as a World Bank study of private sector development in Egypt shows, this will need much more than a few big corporations putting Egypt on their reading list. Private investment would have to more than double in real terms between now and the year 2,000 just to sustain a 3.5 per cent a year growth rate.

Mr Ganzouri's first moves were a series of small confidence boosters aimed at encouraging the private sector that the new government is serious about economic reform. Customs duties on capital goods were reduced and investment regulations and procedures were dramatically simplified. A long-awaited lifting

> Despite a successful programme of financial stabilisation since economic reforms began in 1991, the country still faces the Herculean task of slimming down its bloated public sector

of rent controls on new tenancy agreements was rushed through parliament and public sector banks were told to start selling holdings in joint-venture banks.

At the same time, some of Egypt's more entrenched impediments have also begun to be examined more seriously than before. Mr Mohi Eddin al-Ghareib, the new minister of finance, caused a stir a few weeks ago when he admitted publicly that Egypt's tax collectors often came to arbitrary decisions on how much private sector businesses owed the Treasury. He said a reduction in the high levels of taxes on the private sector could only be achieved by overhauling the taxation system and stamping out tax evasion.

Just as surprising was the long-awaited release last month of a list of more than 100 companies which the government wants to privatise.

The glacial pace of privatisation since Egypt's economic reform programme began has served only to undermine the government's claimed commitment to comprehensive structural reforms. But by naming the companies it intends to sell, Mr Ganzouri's government has shown its determination to put privatisation at the centre of his reform programme.

The list, which includes tourism, construction, textiles and consumer goods concerns, consists of the state's most profitable companies and makes up 45 per cent of the public sector's portfolio, worth more than $4.1bn at the government's valuation.

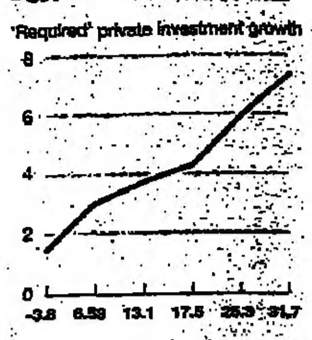
Most of the planned privatisations are due to go through the stock exchange either with initial public offerings or by virtue of them already being listed. Local and foreign investors have been encouraged by the fact that the list identifies, again for the first time, which companies will sell a majority stake to private investors. Other affiliated companies will offer themselves wholesale to strategic investors and an announcement on the first sale from this category, the monopolistic brewer, Al Ahram Beverages Company, is expected in weeks. Brokers are hopeful that the the next series of companies to be sold through the stock exchange will be offered in the next month.

The new spurt of energy comes on the eve of negotiations with the IMF which Egyptian officials hope will lead to a new standby credit agreement. This in turn should trigger the release of the much-delayed third and final tranche of debt relief by Paris Club creditors, currently valued at about $4bn.

With an IMF team due to arrive in Cairo on Saturday to lay the groundwork for the talks, both sides are optimistic that they can put behind them the past 18 months of sour relations caused by the slow pace of reform and a high-level public spat over Egypt's exchange rate policy.

In October, Mr Stanley Fischer, deputy managing director of the IMF, went out of his way to defuse the exchange rate row by saying he saw no danger signs of an overvalued currency on the horizon. In doing so, he overruled the most recent staff report which called for a 25-30 per cent devaluation of the Egyptian pound to compensate for an accumulated inflation differential with Egypt's main trading partners. Egyptian officials expect the exchange rate question to be put on the back-burner – with foreign exchange reserves at around $18bn and inflation in single digits, most economists think the government can afford to defend its exchange rate policies even though the low level of exports will remain an issue.

Egypt

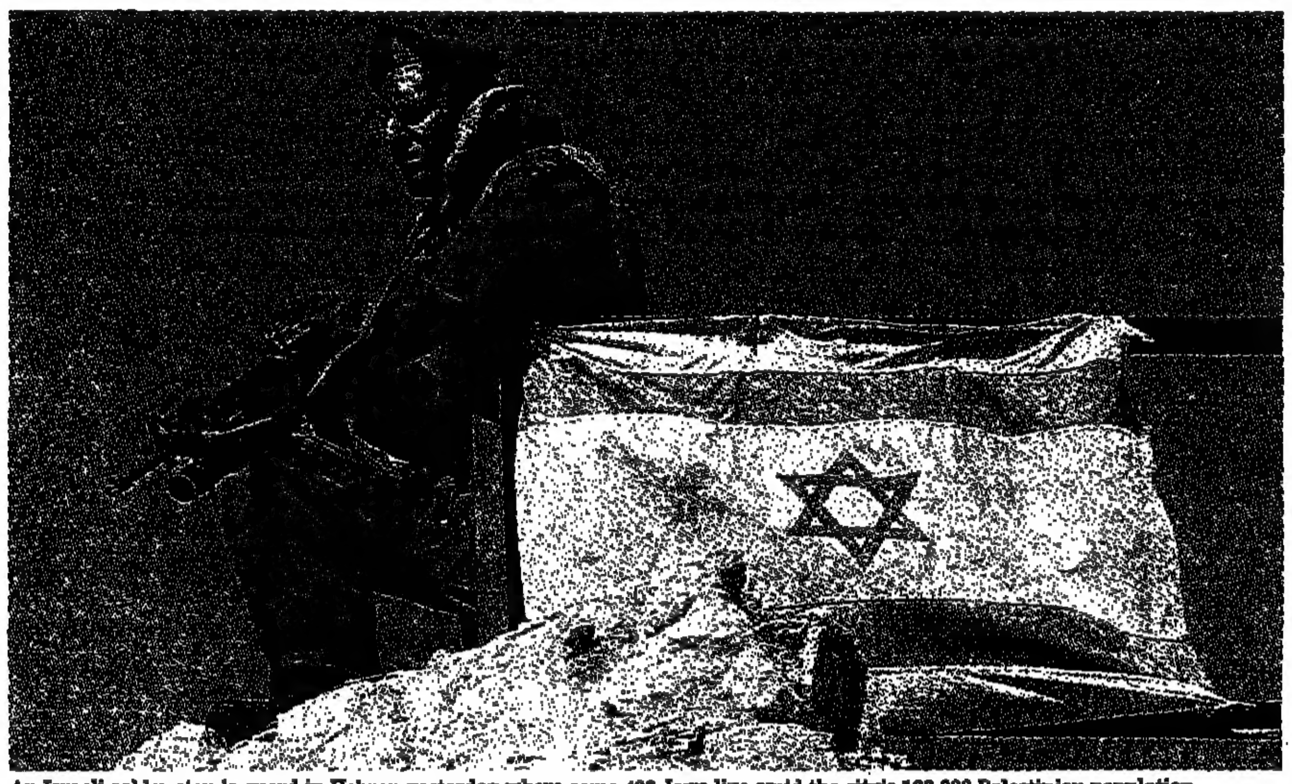


*average annual real private investment growth shown on the horizontal axis would be necessary to generate average real GDP growth shown on the vertical axis over the fiscal years 1993-2000

Source: World Bank

In return, however, the IMF is expected to be particularly demanding with its targets for privatisation, trade liberalisation and the investment environment. "If 1996 is going to be the year that Egypt is put back on the international map of investment destinations, then the government will have to prove not just to the IMF but to the world's investment community that structural reforms will be tackled properly once and for all," says one western economist. "All indications so far are that they are serious about this."

James Whittington



An Israeli soider stands guard in Hebron yesterday where some 400 Jews live amid the city's 100,000 Palestinian population Reuter

Clampdown as Clinton considers backing Middle East summit

Israeli and Palestinian security forces hit Hamas strongholds

By Julian Ozanne in Jerusalem

Palestinian and Israeli security forces struck at the Hamas Islamic movement yesterday, making arrests and raiding strongholds of the extremist group responsible for a spate of recent suicide bombings which have threatened Middle East peace.

The clampdown came as the White House said US President Bill Clinton was considering backing a summit of Middle East leaders to co-ordinate a regional and international response to terrorism.

In Gaza, Mr Yassir Arafat, president of the Palestinian Authority, who is under intense pressure from Israel and the US to end the attacks, sent troops on a dawn raid of the Islamic University, a bastion of Hamas.

Some 200 Palestinian police searched the campus for weapons and wanted Hamas activists, later announcing they had found home-made explosives and made three arrests. Police also arrested scores of Hamas activists in overnight raids on homes and mosques, bringing the number of Islamists held by Palestinian security forces to about 400.

In Jericho a Palestinian court jailed for life a Palestinian man who confessed that he had recruited three suicide bombers for Hamas.

Israel also hit Islamic institutions in the West Bank yesterday, sealing a college in Hebron, arresting over 100 suspects and ordering closure of at least four other institutions in Hebron and East Jerusalem. Army officials said they confiscated documents linking Hamas to "foreign donor and fund-raising groups in Britain, Germany, the US and France". An army officer said groups were ostensibly welfare charities but money from the for-

Benjamin Ben-Eliezer, Israeli housing minister: "We intend to hit all Hamas leaders"

eign organisations supported Hamas' military wing.

Israel also said it had arrested an Arab citizen of Israel, suspected of having smuggled into Tel Aviv from Gaza the suicide bomber responsible for Monday's attack which killed 13 people.

"We intend to hit all the leaders of Hamas," said Mr Benjamin Ben-Eliezer, Israel's housing minister.

In France, the Iranian and Libyan envoys were summoned for a protest over their alleged support for bomb attacks in Israel. But Iran dismissed Israeli and US allegations that it was involved in the bombings and challenged Israel to provide evidence.

Shares on the Tel Aviv stock exchange defied widespread fears of a panic sell-off when the market reopened yesterday after a one-day holiday. The Mishtanim index of top 100 blue chip stocks closed moderately down losing 2.65 points, or 1.27 per cent, to close at 206.6 on an all share turnover of Shk84m (£17.7m). But part of the drop reflected a fall of 7.25 per cent in shares of Agan Chemicals after it announced disappointing results.

Shipment of nuclear waste to be reviewed

By Charles Batchelor, Transport Correspondent

Proposals to impose stricter controls on the shipment of irradiated nuclear waste are to be reviewed by teams of maritime experts following a three-day conference in London organised by the International Maritime Organisation.

Some countries are keen to exclude nuclear waste shipments from their waters, but this would contravene the generally accepted principle of freedom of the seas.

Other nations want a voluntary code of practice for the safe shipment of waste to be made mandatory. However, this would involve long discussions within the IMO and is opposed by some.

The UK, France and Japan, the three countries most closely involved in the shipment of nuclear waste, are anxious to maintain flexibility in moving materials. They are understood to have devoted considerable efforts towards persuading states opposed to the shipments that existing precautions are adequate.

Delegates to the London conference were shown over the Pacific Sandpiper, a ship operated by British Nuclear Fuels, which is designed to move nuclear waste.

An IMO spokesman said the conference was not intended to make recommendations but that it had "cleared the air". Further talks will continue within the organisation's specialist marine safety and legal committees.

Reuter adds from Vienna: The US will not attempt to veto new global standards for transporting radioactive materials by air even though it considers them too lax, a US official said.

The tougher safety standards agreed by a UN nuclear committee last week were well below US requirements, but still represented a big step forward, the official said. Opponents of the new criteria complain they offer no protection in a crash.

INTERNATIONAL NEWS DIGEST

Mining ban at hippo sanctuary

The South African government yesterday refused permission for mining to be carried out on the eastern shore of Lake St Lucia in northern KwaZulu-Natal, ending an intense and sometimes bitter six-year struggle by environmental groups to prevent exploitation of the area.

The application had been made by Richards Bay Minerals, a company jointly owned by Gencor and RTZ, which has been mining titanium from nearby sand dunes since 1978. The contested area is claimed by environmentalists to be one of the world's richest breeding grounds for birds, and home to the largest number of hippopotamuses in southern Africa.

The cabinet decided that mining and the development of the area for tourism were not compatible, but existing mining operations would be allowed to continue.

A ministerial team will be appointed to devise a long-term strategy for the area; an immediate application is to be made for St Lucia to be registered as a world heritage site.

Roger Matthews, Johannesburg

Mandela passes health tests

Doctors yesterday pronounced South African President Nelson Mandela in excellent health and said he would be discharged one day earlier than expected from the clinic where he was undergoing tests.

Mr Mandela checked into the clinic for a battery of tests to end financial market speculation his health was deteriorating which had battered the rand.

"His heart condition is satisfactory – there is absolutely no evidence of coronary artery disease. The condition of his lungs is equally excellent. There is no evidence whatsoever of cancer of the prostrate," his doctors said. Tests included X-rays, lung function and electro-cardiogram studies and urine and blood tests.

"It will take another three days to analyse all the test results – at which point, with the president's permission, the results will be given to the media," the doctors said.

Dealers at the Johannesburg Stock Exchange said bonds gained in the morning on the news. The market drifted later on other factors.

Financial analysts say there had been concern among foreign investors about rumours of Mr Mandela's health. They were worried whoever succeeds Mr Mandela might not hold to present policies on fiscal discipline, protection of private property and markets.

Mr Mandela's most serious health problems came towards the end of his 27 years in apartheid-ruled South Africa's prisons, when he had his prostate gland removed and was treated for tuberculosis.

Reuter, Johannesburg

Senator opposes Iran study

The head of the US Senate banking committee has urged President Bill Clinton and Mr Boutros Boutros Ghali, United Nations secretary-general, to thwart a UN feasibility study of an international gas pipeline that would cross Iran.

In separate letters on Tuesday, Senator Alfonse D'Amato, a New York Republican, told them: "I urge you in the strongest terms to seek an immediate halt to this or any other deal that would subsidise Iranian aggression.

"Terrorism is Iran's weapon of choice and we cannot allow the UN to contribute to its funding."

At issue is a UN-backed study of the feasibility of building a gas trunkline loop through Iran to facilitate natural gas supplies to Europe and East Asia.

Reuter, Washington

Hughes and BAe ahead in race for missile deal

By Bernard Gray, Defence Correspondent

Hughes of the US and British Aerospace have emerged as front-runners in the £700m ($1.07bn) competition to supply the UK with air-launched cruise missiles. Several other contenders have been warned privately that their bids are not competitive as they stand.

BAe's prospects have been boosted because the British defence ministry is keen to help the company cement its missiles joint venture with Matra of France, a deal which the French government has insisted cannot go ahead unless it is accompanied by the cruise missile order.

Hughes is also in a good position because of the strong operational record of its Tomahawk cruise missile, a shortened version of which is being offered for the UK's Conventionally Armed Stand Off Missile competition. The British ministry has also recently bought the support equipment needed to operate both the Tomahawk and the smaller Airhawk as part of its plan to equip Royal Navy with the Tomahawk. This would cut the cost of buying the Airhawk missile.

BAe and Matra have restarted discussions on the joint venture as a result of this encouragement from the ministry after almost a year with very little progress. Recent negotiations, however, are said to have gone well.

Because Germany also has a requirement for cruise missiles likely to be filled by the Matra Apache missile, the project is being considered as a possible launch programme for the Franco-German arms agency, which Britain could join if it also selected a version of the Apache.

The missiles from BAe and Hughes are among the most expensive and the most capable to have been offered to the ministry. Other, cheaper contenders have been discouraged.

General Electric Company of the UK, which is in the lead in the other current missile competition to supply anti-tank missiles to the Royal Air Force, has been warned that its cruise missile offering is not competitive as it stands.

GEC is offering a similar cruise missile to the United Arab Emirates in a competition which could be worth $2bn of export sales, and will have to consider how best to proceed.

The company said, however, that it had not been told by the British defence ministry that its missile had not been selected. The ministry insisted last night that it had made no decision to eliminate any of the seven competitors from the field.

McDonnell Douglas of the US is also offering a missile for the competition, as are Texas Instruments, Daimler-Benz Aerospace, and Rafael of Israel.

European Union Former chancellor says policy of shadowing the euro might be best for industry

Centrist party leader attacks 'xenophobia'

By George Parker, Political Staff

Mr Paddy Ashdown, leader of the centrist Liberal Democrat party, last night attacked the "sullen xenophobia" at the heart of British foreign policy and called for immediate action to build bridges with the nation's European partners.

In his farthest-reaching foreign affairs speech for five years, Mr Ashdown said Britain needed to work for closer integration in Europe, and should push for increased security co-operation and institutional reform to allow enlargement.

Speaking to the Royal Institute of International Affairs, he also said Britain should play a bigger role in reforming the United Nations, and that its armed forces should play a leading part in international peacekeeping operations.

Mr Ashdown's strongest comments yesterday were reserved for the governing Conservative party's foreign policy, which he said had "offended our natural allies and damaged our national interests".

He claimed that 17 years of Conservative rule had left Britain isolated in Europe, and that former close allies such as Germany and the Netherlands had been badly neglected.

"One of the worst aspects of Britain's current political debate is that it has become acceptable in Conservative circles to talk about Germany and the Germans in the same tone which English politicians reserved for the Jews 80 years ago, and the Irish a century ago," he said.

He said Britain should not take for granted Germany's "constructive leadership" in Europe. "In the famous words of Thomas Mann, the choice is between a European Germany and a German Europe," he said.

Mr Ashdown leads Britain's most pro-European party and is one of the most outspoken champions of the benefits of a single EU currency. The Liberal Democrats are the heirs of the reforming Liberal party governments of the late 19th and early 20th centuries, but today's party holds only 25 of the 651 seats in the House of Commons.

Yet the Liberal Democrats could be influential in helping Mr Tony Blair, the Labour party leader, to pursue pro-European policies if Labour wins the next general election with only a small majority. Many Labour MPs oppose closer integration and some favour outright withdrawal from the EU.

'Link sterling to single currency'

By Gillian Tett, Economics Correspondent

The government should consider informally linking sterling to a European single currency even if the UK opts out of monetary union, Lord Lawson, the former chancellor of the exchequer, said yesterday. The suggestion is likely to provoke further debate about the relationship between those inside and outside a future monetary union. Lord Lawson served as chancellor under Baroness Thatcher in the late 1980s.

Many German and French officials are demanding that countries like the UK, which may be outside a monetary union area, should be tied into the euro through some currency mechanism.

But Mr Kenneth Clarke, the current chancellor, has indicated that he remains opposed to any participation in the type of exchange rate mechanism that the UK left in 1992.

Lord Lawson himself, who was speaking to the House of Commons Treasury committee, did not specifically advocate a return to the ERM. But he suggested that if a single currency went ahead, "a policy of shadowing the euro might be the best context for British business and industry if it did not cause an upsurge in inflation."

Lord Lawson expressed strong doubts about the single currency, insisting that it remained driven by political, rather than economic, motives.

He warned that if monetary union happened, countries such France and Germany could face social unrest. If the populations chose to blame any downturn in their economies on monetary union, then it could "strain the political fabric very considerably and give full rein to every xenophobic demagogue in every European country".

● The prime minister's desire to make a commitment to hold a European single currency referendum faces implacable opposition from only two cabinet ministers, our Political Editor writes. They are Mr Kenneth Clarke, chancellor of the exchequer, and Mr Michael Heseltine, deputy prime minister.

The disclosure that the two most pro-European members of the cabinet are blocking agreement on this issue may persuade Tory Eurosceptic MPs to abandon their shaky truce in the party's long-running civil war over the EU. However, some of Mr Clarke's colleagues believe he would threaten to resign over it.

Senior members of the government have been pushing Mr Major to make a decision on the issue in order to defuse the growing row within the Conservative party on a European policy paper to be published early next week.

On Monday, while the prime minister was in Korea, Mr Heseltine and Mr Brian Mawhinney, the Tory party chairman, convened a meeting of senior ministers to voice their opinions on a possible referendum. The strongest opposition was voiced by Mr Clarke. But Mr Michael Portillo, the Eurosceptic defence secretary, has softened his resistance to such a move.

The Confederation of British Industry yesterday urged the government to participate more fully in EU decision-making, *our Industrial Editor writes*. It said ministers should avoid being distracted by "extreme and emotive" arguments over monetary union.

Speaking at the launch of a CBI campaign promoting European integration, Mr Niall Fitzgerald, chairman of the CBI's Europe Committee, said: "It is crucial that business priorities are not lost in the fog of rhetoric that surrounds most of the UK's debate on [the EU's] future." Mr Fitzgerald, who is chairman-designate of the UK arm of Unilever, is pictured here with Sir Bryan Nicholson, CBI president, on his left.

"There's a perception in Continental Europe that . . . there's a lack of commitment to the principle of Europe on the economic level," said Mr Fitzgerald.

February sales of new cars up 4.4%

By John Griffiths in London

Registrations of new cars rose by 4.4 per cent last month compared with February 1995. But the increase was entirely due to fleet buyers.

Manufacturers and dealers expressed concern about the continuing lack of demand from private buyers.

Their concern was heightened yesterday by statistics from HPI, the industry credit finance monitoring organisation, indicating a continuing sharp rise in demand for used cars among private buyers.

They increased suspicions that private buyers are shunning new cars not only because of lack of confidence, for example about job security. There is also a feeling that sales are sluggish because new cars are considered to give poor value.

The Retail Motor Industry Federation has started to criticise what its says are excessive new vehicle prices which lead to high levels of depreciation for private buyers. "Customers are clearly shying away from the showrooms," Mr Neil Marshall, the RMI's policy director, said yesterday. He cited the practice of pre-registration by manufacturers seeking to boost their market share – registering cars for which no customers exist.

Statistics from HPI showed that demand for new cars by private buyers fell 1.9 per cent in the first two months of this year. But used-car credit sales rose 17 per cent in the last quarter last year. The figure for early 1996 is thought to be higher.

VW, Renault and Fiat make big gains

REGISTRATIONS OF NEW CARS	Feb 1996 Volume	Feb 1996 Change%	Feb 1996 Share%	Feb '95 Share%
Total market	159,013	4.4	100.0	100.0
UK produced	59,750	-0.6	37.6	39.5
Imports	99,263	7.7	62.4	60.5
Japanese makes	20,586	11.7	12.9	12.1
Ford group	34,090	1.0	21.4	22.2
– Ford	33,564	1.2	21.1	21.8
– Jaguar	526	-6.4	0.3	0.4
General Motors	25,432	2.7	16.0	16.3
– Vauxhall	23,979	0.9	15.1	15.6
– Saab*	1,453	44.0	0.9	0.7
BMW group	20,922	-7.0	13.2	14.8
– BMW	4,288	-5.9	2.7	3.0
– Rover**	16,634	-7.3	10.5	11.8
Peugeot group	16,615	-5.5	10.5	11.5
– Peugeot	11,566	-6.5	7.3	8.1
– Citroen	5,049	-3.1	3.2	3.4
Volkswagen group	12,052	33.9	7.6	5.9
– Volkswagen	8,097	32.1	5.1	4.0
– Audi	2,058	100.0	1.3	0.7
– SEAT	1,017	-1.3	0.6	0.7
– Skoda†	880	58.1	0.6	0.5
Renault	11,516	5.4	7.2	7.2
Nissan	7,311	-3.2	4.6	4.7
Toyota	4,358	1.1	2.7	2.8
Fiat group	7,434	23.2	4.7	4.0
– Fiat	7,118	21.5	4.5	3.9
– Alfa Romeo	316	82.1	0.2	0.1
Volvo	2,430	-28.7	1.5	2.1
Mercedes-Benz	2,849	59.2	1.8	1.7
Honda	3,895	30.9	2.5	2.0
Korean makes	2,777	128.2	1.7	0.8

*GM holds 50% of Saab Automobile and has management control. **Includes Range Rover Discovery.
†VW holds 70% of Skoda and has management control.
Source: Society of Motor Manufacturers and Traders

Stock exchange to revise plan for order matching

By George Graham, Banking Correspondent

London Stock Exchange managers are to produce a new set of proposals on the introduction of electronic order-matching after their first consultation drew a mixed response. The new framework proposals are expected to reach the exchange board in two weeks. But exchange officials and stockmarket companies say it be take many months before a consensus can be reached.

The exchange had initially hoped to be able as early as August to introduce order-driven trading in which buy and sell orders are entered on a central electronic order book and automatically executed when they match.

But even among those who favoured order-driven trading, a large number felt they would need more time to prepare – probably 9 to 12 months after the release of detailed rules for operation of the system.

An analysis of the 180 responses to the exchange's first consultation document, prepared by PA Consulting, shows that only 21 per cent felt that the case for order-driven trading had not been made.

But that does not mean that 79 per cent actively supported change. PA Consulting's analysis points out that the exchange did not explicitly ask members whether they wanted a change to order-driven trading, and those who had simply answered the questionnaire might also oppose the order-driven proposal.

The analysis shows that opposition is much stiffer among the biggest Stock Exchange members. If responses are weighted for the size of each business, marketmakers and brokers representing 47 per cent of the market were hostile to the Exchange's proposals. Institutions managing roughly £150bn ($230bn) of funds voiced opposition to the exchange's plan.

Hostility to the changes proposed by the Exchange is deepest among the big marketmakers, who fear that the new system would undermine their market share.

Deutsche Morgan Grenfell, the investment banking division of Deutsche Bank, is close to a high-profile appointment of a head of UK equities to lead its return to London stockmarket trading, *Nicholas Denton writes*. The appointee, who is set to be named this month, will manage the recruitment of up to 100 staff to build up UK equities research, sales and trading capabilities. Since embarking last year on the integration of Deutsche Bank and Morgan Grenfell, and the focussing of investment banking operations in London, DMG has hired 175 staff while losing or replacing about 50, it said yesterday.

Expansion of UK equities will allow the resumption of London Stock Exchange membership by Morgan Grenfell, which closed its securities business a year before it was acquired in 1989 by Deutsche Bank. The measure will fill one of the last gaps remaining in DMG's equity business.

DMG said it had spent about £20m ($31m) on the trading floor for 600 traders it opened this week in the City of London. Other DMG trading floors are in New York, Frankfurt and Singapore.

UK NEWS DIGEST

Net widens for defaulting Names

LLOYD'S
LLOYD'S OF LONDON

The Lloyd's of London insurance market has extended to Australia and New Zealand its efforts to collect funds from Names who have blatently refused to pay debts at the insurance market.

The appointment of a Ferrier Hodges, accountants and insolvency practitioners with offices in Sydney and Auckland, is part of wider moves by the market to prevent blatant "won't pays" benefiting disproportionately from its recovery plans. The plan – on which Ferrier Hodges will also give advice – includes a £2.8bn ($4.28bn) out-of-court offer to lossmaking and litigating Names. Names are individuals whose assets have traditionally supported the insurance market.

Lloyd's will tomorrow post to more than 30,000 Names around the world the first indication of the cost to them, after taking account of the £2.8bn, of drawing a line under their affairs at the 300-year-old market. Details of how "won't pays" might be "means-tested" are still being worked out. Final statements are due in May. Some 179 Names in Australia and 101 in New Zealand are understood to have outstanding bills to pay. Unpaid losses which have been "called" from Names in the two countries amount to £36.2m and £20.1m respectively.

Ralph Atkins, Insurance Correspondent

Ministers braced for drug ruling

The government is braced for a damaging legal defeat over its attempt to outlaw a drug capsule linked with heroin abuse, on the grounds that the ban falls foul of European law.

The American drug company RP Scherer claims the ban is illegal under EU and UK law, and that the government has not proved a clear health risk. Under European law ministers must justify a drug ban on "objective and verifiable criteria". They must also show that a ban is "proportional" to the perceived problem. RP Scherer also claims the department acted in excess of its own powers under UK law.

The Department of Health issued a ban on the prescription of gel-filled temazepam capsules on January 1, on the grounds that drug addicts were mixing the gel with heroin. The DoH claims the gel solidifies in the veins of addicts, causing gangrene, thrombosis and death. But the ban was immediately challenged by RP Scherer, for whom the production of gel capsules for temazepam represents £2m of its £40m ($61.2m) annual turnover.

George Parker, Westminster

Adams warns on IRA's 'war'

Mr Gerry Adams, Sinn Féin president, warned that the Irish Republican Army was prepared for "another 25 years of war". In an article in a New York Irish-American newspaper, the Irish Voice, Mr Adams gave details of a meeting he and Mr John Hume had last week with the IRA Army Council. He quoted one IRA leader as saying: "We sued for peace, the British wanted war. If that's what the want we will give them another 25 years of war." Mr Hume is leader of the constitutional nationalist Social Democratic and Labour party. Mr Dick Spring, Irish deputy prime minister, commented: "The obstinacy of their language is very unhelpful, but it took place before the meeting of the two governments when the communique was issued."

John Kampfner, Westminster

Glassmaker considers UK plant

Glaverbel of Belgium, Europe's third biggest glassmaker, is considering building a plant in the UK to supply glass to Britain's carmakers. The group is studying possible locations for the factory which it estimates might cost up to £50m ($76.5m). Glaverbel, which is 62-per-cent owned by Asahi Glass of Japan, wants to strengthen its ties with the British operations of Japanese carmakers.

Auto glass last year accounted for only about 13 per cent of Glaverbel's annual sales of BFr38bn (£815m), much less than its bigger rivals – Pilkington of the UK and France's St Gobain. Mr Luc Willame, chief executive, said while no final decision had been taken on a UK plant, the group hoped to make an investment in Britain at the end of 1997 or the beginning of 1998.

Stefan Wagstyl, Industrial Editor

Union snubs Post Office reform

The Royal Mail's plans to introduce the biggest shake-up in working practices in its recent history have been rejected overwhelmingly by the executive committee of the Communication Workers Union.

The deal would have produced average pay rises for postal workers of 15.2 per cent, or £30 ($45.90) a week, in return for workers accepting total quality management methods and greater flexibility.

Robert Taylor, Employment Editor

Telecoms groups form alliance

Cable and Wireless, the UK-based communications group, and Northern Telecom of Canada have formed a technological alliance designed to develop regional solutions for telecoms networks, services and equipment. A memorandum of understanding allows any C&W company to partner with any of Northern Telecom's research and development laboratories. Financial and other terms of the memorandum have not been disclosed.

Alan Cane, London

Satellite advertising move

UK Gold, the cable and satellite television channel, is trying to form an advertising sales house to represent all the UK's channels which are not owned by media tycoon Mr Rupert Murdoch.

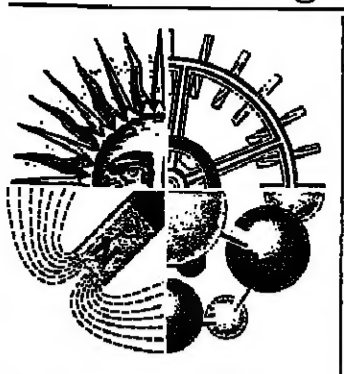
UK Gold has been having talks with Flextech, the media group that manages, owns or holds stakes in 13 channels ranging from Playboy UK to the Children's Channel.

Agreement on a sales venture could come in the next two months. Flextech, controlled by TCI of Denver, the world's biggest cable group, is a shareholder in UK Gold, with the BBC, Pearson – owner of the Financial Times – and Cox Communications of the US.

Raymond Snoddy, London

Lex, Page 14

Worth Watching · Vanessa Houlder



Weeds' gain from genetic engineering

Genetic engineering has impressive potential for producing higher yielding and more robust crops. But there is a risk that the newly introduced genes might spread into the wild, according to a report in this week's Nature.

Scientists at the Environmental Science and Technology Department at the Riso National Laboratory in Roskilde, Denmark, conducted field experiments on oilseed rape. They found that a gene inserted into the crop was able to spread rapidly to *Brassica campestris*, a hardy, herbicide-resistant relative. The experiment raises the possibility that the genetic modification of oilseed rape could introduce undesirable qualities into weeds.

Riso National Laboratory: Denmark, tel 4677 4126; fax 4632 3383.

House-hunting at a glance

A UK estate agency chain has introduced a computerised viewing system to help potential buyers sift through the houses on their books.

The computer network links General Accident Property Services' 340 offices. The agency is considering developing the system to include short video clips and sound tracks.

General Accident Property Services: UK, tel (0)191 226 1133; fax (0)191 226 0455.

Quick route to land mines detection

The United Nations estimates that there are 100m land mines buried in 64 countries around the world.

Attempts to develop radar-based systems to detect mines have been hampered by the time taken to analyse the vast amounts of data generated. Now the US Army Research Laboratory and Mercury Computer Systems in Massachusetts have speeded up the process using technology that allows the quick transfer of data to computers for storage and analysis. The equipment, which is carried on a 150ft-high robotic arm, may also have commercial applications, such as the detection of cables and pipes, according to Floating Point Systems, Mercury's UK distributor.

Mercury Computer Systems: US, tel 508 2561300; fax 508 2563559.

Ink-jet printer clears up a problem

Printing large high-quality text, graphics or readable barcodes on packaging is notoriously difficult, *writes Paul Taylor*. As a result, many manufacturers have resorted to using labels – which present their own problems, including production delays while supplies are replenished.

Now, however, Mark-O-Print, a UK-based company, has developed a specialist non-contact ink jet printer which, it claims, can be used to print on cartons "with a previously unattainable clarity level".

The printer's main advantage over traditional label-based systems is that the ink cartridge can be replaced while printing continuously, removing the need for breaks in production.

Mark-O-Print, UK, tel (0)181-560-2224; fax (0)181 560 8774.

Gene therapy for Hurler's syndrome

Gene therapy is showing promise as a possible treatment for Hurler's Syndrome, a rare fatal disease that stems from a metabolic enzyme deficiency.

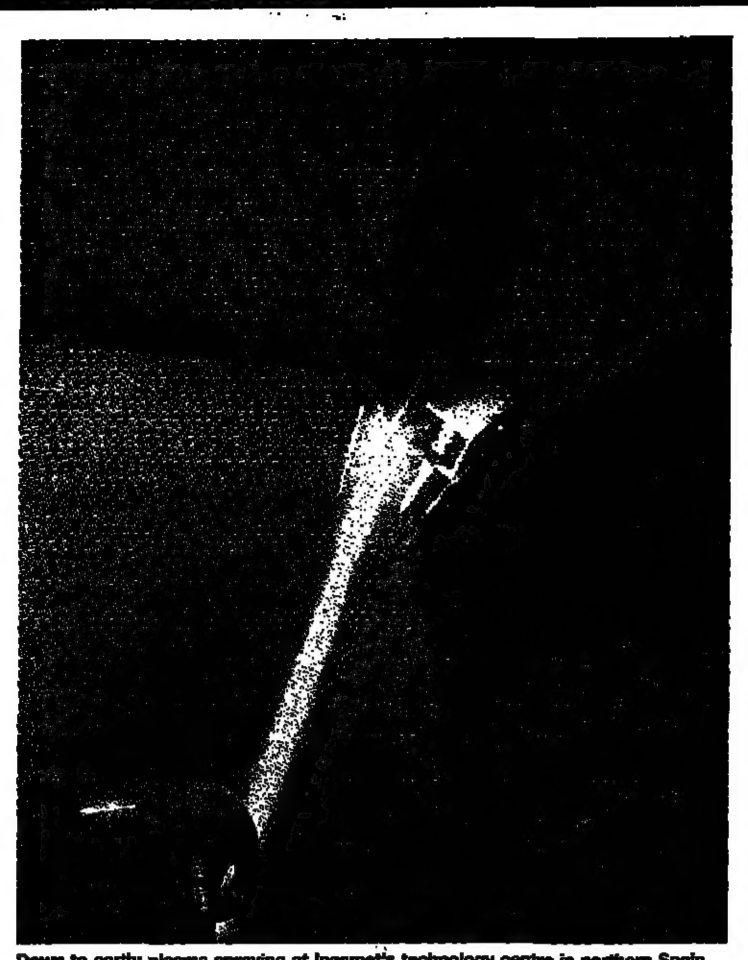
Researchers at the Paterson Institute, the research arm of Manchester's Christie Hospital, believe that the deficiency may be corrected by transferring a gene into a patient's bone marrow.

Working as part of an international team, the researchers infected stem cells from the human bone marrow with a genetically engineered virus containing the gene responsible for producing the missing enzyme. This gene was taken up by the stem cells, which produced blood cells that contained the necessary enzyme.

Christie Hospital: UK, tel (0)161 4463231; fax (0)161 4463033.

Surface attentions

Two promising treatments for metal are trying to throw off their 'rocket scientist' image, says Geoff Nairn



Down to earth: plasma spraying at Inasmet's technology centre in northern Spain

Driven by the demands of the aerospace and semiconductor industries, materials scientists have developed many advanced technologies to coat and modify metal surfaces.

Yet the spin-offs from this research have struggled to find a wider market, and many potential customers remain suspicious of the "white coat" image of the more exotic surface treatment methods.

Plasma spraying and ion implantation are two such technologies that, in certain applications, can outperform more established methods of improving metal surfaces. Ion implantation can extend the life of tools and moulds up to 10 times, while plasma spraying, originally developed to protect jet turbines, is unrivalled for coating biomedical implants.

Despite their apparent advantages, industrial use of these high-tech methods is limited. The European market for ion implantation treatment was worth just Ecu3.5m (£2.75m) in 1994 and while growth is running at 20 to 25 per cent, the market for physical vapour deposition – a more basic technology – is more than twice as big.

"Ion implantation occupies a rather small niche, but it is growing," says Niels Mikkelsen, head of ion implantation at the Danish Technological Institute, which offers various surface treatments to Danish companies.

Ion implantation has been used for 30 years to change the electrical properties of semiconductors and is a standard chip-making technique. In the 1970s, scientists at the UK's atomic research centre at Harwell and elsewhere discovered they could use the technology on metals. By bombarding the surface of a metal part with charged atoms (ions) of substances such as chromium or nitrogen, its resistance to heat, wear or corrosion can be improved.

The Danish institute was set up in 1985 to exploit the ion implantation research of the nearby University of Aarhus. Other centres in the US and Europe started the same way, but progress was slow.

Initial interest from Danish companies, especially smaller ones, was high. But few followed up the first contact. The ion implantation industry now realises that the high-tech image does it no favours. "The managers of SMEs [small and medium-sized enterprises] think the technology is linked to space applications," says Andres Gil-Negrete Angulo, a metallurgist at Inasmet, a technology centre sponsored by Spain's Basque regional government.

The high cost of ion implantation equipment – $300,000 to $1m – and the need for skilled technicians mean few SMEs can justify dedicated facilities. Specialist centres such as Inasmet, the Danish institute and, in the UK, the Harwell spin-off AEA Industrial Technology, offer ion implantation on a contract basis.

The disappointments of the 1980s forced these centres to bring the technology down to earth. Physicists have learnt about metal-bashing and tooling, and marketing drives have refocused on applications where ion implantation significantly outperforms other techniques, with cost/benefit analyses to persuade any sceptical customers.

"It takes a lot of effort to apply ion implantation and convince industry of the benefits," says Ignacio Oñate, director of Inasmet's surface treatment department.

Danish toymaker Lego System is one convert to ion implantation. It uses the technology to prolong the life of the steel moulds used to cast its famous plastic bricks. Before ion implantation, some moulds had to be refurbished repeatedly because of the corrosive action of the gases given off by the molten ABS plastic.

Steel "inserts" are used for parts of the mould where corrosion is worst and traditionally these needed replacing after casting 50,000 to 100,000 bricks. With ion implantation technology, high concentrations of chromium ions are implanted by the institute in the surface of the steel inserts to increase their corrosion resistance.

The implanted inserts outlast at least 500,000 bricks – approaching the lifetime of the mould itself. The company is introducing the technology gradually and hopes it will cut operating costs by reducing the number of inserts held in stock and downtime due to mould refurbishment. *The treatment adds about* 10 per cent to the cost of a mould.

"Ion implantation is easy, cheap and risk-free. We do not understand why more companies do not use it," says Michael Dossing, Lego materials manager.

As well as moulds and dies, ion implantation can be used to treat precision tools, blades, nozzles and bearings. In Japan, the technology is used to improve the corrosion resistance of electric shaver foils.

Plasma spraying was developed in the 1960s to protect expensive jet turbine parts from heat and wear. But a downturn in aircraft orders has forced plasma spraying companies to seek new markets. Unlike ion implantation, plasma spraying is a coating technology. Powder is injected into the plasma (ionised gas) formed when a high current is passed through argon gas. The powdered particles melt and are projected at high speed on to the surface of the part being treated.

The resulting coatings bond well and a wide range can be applied, thanks to the very high temperature (more than 10,000°C) of the plasma, which will melt any metal, ceramic or cermet (metal-ceramic) powder.

One of the most common uses of plasma spraying is medical implants. Knee-joint stems and other implants are routinely spray-coated with hydroxyapatite, a ceramic bone-like material, to encourage the natural bone to bind. German pharmaceuticals group Merck is installing a FFr6m (£770,000) plasma-spraying facility at a new factory in France.

Other uses include thermal barrier coatings for engine piston crowns and gas turbine components, laser-engravable coatings for printing-press cylinders, electro-magnetic shieldings and abrasive coatings to create tight seals.

Inasmet offers plasma spraying to more than 50 companies, as well as plasma-assisted vapour deposition and high-velocity oxygen fuel spraying – two other high-tech coating technologies. It is also evaluating a novel "detonation gun" technology developed at Kiev's Paton Institute.

Whatever new techniques may emerge, the surface industry's main challenge in the 1990s is commercial. "The technologies have reached maturity and our aim now is to increase the market penetration," says Oñate.

Power of practical plasma

Plasma, being neither solid, liquid or gas, is the elusive fourth state of matter and is found naturally only in lightning. But what was once a scientific curiosity is today being harnessed and put to practical use to destroy hazardous waste.

When a high current is passed through an inert gas, such as nitrogen, the gas ionises to form a plasma and its temperature rises several thousand degrees.

This very high temperature breaks down the molecules of stable organic and inorganic substances found in toxic waste and those, *such as dioxin, that may form* during incineration.

In a plasma incinerator, metals vaporise and can be recovered, while non-volatile substances are turned into inert slag. Complex organic compounds are broken down into simpler molecules, such as carbon monoxide and methane, some of which can be burnt to obtain energy.

Others, such as chlorine or fluorine, must be removed before the flue gas is released to the atmosphere. Tests in the US have shown the concentration of the elements in the flue gas is 1,000 times less than for conventional incinerators.

One promising area for plasma incineration is asbestos waste, which resists conventional incineration. The US defence department faces a big disposal headache in the vast quantities of asbestos used in the past to construct its buildings.

The defence department is investigating the use of plasma-arc furnaces to vitrify asbestos, creating a safe glassy residue that can be sent to landfill as normal waste or even recycled.

Few disposal sites are certified to take asbestos waste and costs are expected to increase dramatically as more building owners seek to rid themselves of their asbestos legacy.

In Spain, Inasmet has set up a pilot plasma plant with energy utility Iberdrola to treat various hazardous wastes, including liquids used in the transformers of electricity substations, asbestos and low-level radioactive waste such as ion-exchange resins from nuclear power stations.

GN

Cinema/Nigel Andrews

Culture out of chaos

UNDERGROUND
Emir Kusturica

RESTORATION
Michael Hoffman

LA CEREMONIE
Claude Chabrol

Film directors are often compared with traffic policemen. But directing large-scale historical movies is like performing point duty in a city centre during an evacuation. How do you control the flow? Whom do you tell to go where? And how do you avoid being run over in the stampede?

Restoration is set in post-Cromwell England before and during the plague. Emir Kusturica's Cannes Golden Palm-winning *Underground* enacts 50 years of Yugoslavian/Bosnian history with a cast ranging from embattled human beings to runaway zoo animals.

Both films are examples of chaos as art. But *Underground* makes marginally more sense, if only because it knows that history makes almost no sense. Kusturica is a fable-maker who likes his characters to fly (*Father Is Away On Business*), to dream (*Time Of The Gypsies*) or here to build their own warrens and catacombs of make-believe in the hard reality of war. Marko (Miki Manojlovic) and Blacky (Lazar Ristivski) are 1940s black marketeers with whom we tramp through half a century, mostly spent in a giant cellar where scam artist Marko detains his friends by insisting that the war against the Germans is still raging outside.

He himself dashes out to forage, wheel and deal, take history's pulse and – ultimate sign of opportunistic madness – become a film-maker. Scenes from Marko's 1960s-made second world war movie become artfully entangled with Kusturica's own film, not least when the cellar-escaping Blacky starts shooting the actor Nazis, believing they are real.

By now the surrealist flag has been hoist and we are all dangling giddily in the breeze. Inter alia, we witness the fraudulent deaths and rebirths of our two heroes; discover a network of tunnels leading to all the European capitals; and crash into 1990s Bosnia where the film finally parts company with naturalism as clinchingly as the grassy promontory that breaks free from its bank in the last scene, during an *al fresco* party, and floats down river. (Did I imagine or was the promontory in the exact shape of ex-Yugoslavia?)

The film is long, inventive and exhausting. No one grows old, except possibly the audience. A Kusturica with even less regard for attention spans than for realism allows favoured set-pieces – notably a riotous, drunken wedding party in the cellar – to drag on beyond expiry point.

At other times the fantastical visual shorthand has one pining for a structure that would do it better justice. Kusturica can felicitously blend fiction with fact (a *Forrest Gump*-style shot in which Marko embraces Tito). He can make sardonic echoes between image and image, as when a baby is delivered by the light of a lamp powered by a man pedalling a bicycle, in a scene whose cartoonish whimsy is counterpointed by a later, nastier electrical *jeu d'esprit* in which a torture victim's hair stands on end. And has any movie sequence better captured the nightmare slapstick of a war's first irruption than Kusturica's prologue?

Escaping their cages, tigers, horses and elephants romp through town, a new citizenry parodying the behaviour of the old. The elephant ruminatively steals a pair of shoes from a window ledge; the tiger amorously necks with a goose. For most beings on this earth, suggests *Underground*, war may be hell. For just a few, including profiteers and pachyderms (and even picture-makers), it may be a perverse kind of heaven.

★

Restoration is another film in which sprawl fights with substance. Even though a Rose Tremain novel is something you buy by the yard, director Michael Hoffman and his team could have been less spendthrift in adapting this particular blockbuster. Our young physician hero (Robert Downey Jr) charges through late 17th-century England experiencing everything that money can buy and movies can dramatise.

He whores and wassails with Charles II (Sam Neill); develops a fancy for the King's mistress (Polly Walker); is thrown out of court; takes up with Quakers (led by David Thewlis); then falls in love with a victimised, mentally challenged Cornish waif (Meg Ryan), who is a sure bet for a poignant death scene. Finally, since there is still film in the camera and scenery on the backlot, our hero must battle the great fire of London.

I was reminded of those cut-out toy peepshows one enjoyed as a child, in which one gaudy make-believe vista led through to another, at least until the dog entered the room and crushed the whole thing with a simple paw. *Restoration* is at once agreeably decorative and utterly flimsy, one of those films measured not so much by what they achieve as what they get away with.

It gets away, most surprisingly, with its mixed-pedigree casting. Hollywood's Downey and Ryan speak perfect English. New Zealand's Sam Neill likewise. The only vocal misfit is Hugh Grant. Turning up for five minutes as a painter, he gibbers in that unmistakable style that could only come from the age of mobile phones and unreconstructed yuppyism.

★

Claude Chabrol's *La Cérémonie* is the most sumptuously bleak treatment of the servant problem since Genet's *The Maids*. Though drawn from a more catchpenny source – Ruth Rendell's murder novel *A Judgment In Stone* – its picture of two sisters in crime (Sandrine Bonnaire, Isabelle Huppert) destroying a bourgeois family is in the great tradition of French nihilism.

We are not sure why newly employed maidservant Bonnaire, a taciturn illiterate with the face of an anorexic Saint Joan, displays such sulky hostility to her master and mistress (Jacqueline Bisset, Jean-Pierre Cassel). But we believe every tic and frown of Bonnaire's performance – with its hint that shyness can sometimes be closer to the psychopathic than the innocent – and we sense the lethal chemistry of her nascent friendship with chattery, domineering sub-postmistress Huppert.

Huppert's idea of public service is to open everyone's letters and gossip about the contents. "What a pair," sighs Cassel later; "one can't read, the other reads our mail." Inside the family's country villa the two girls poke their noses into Bisset's cupboards ("All these clothes! You can see she was a model"), gobble chocolates while watching TV, eavesdrop on private conversations including the daughter's pregnancy-revealing chat with her boyfriend, and then finally, casually prime the shotguns.

Give Chabrol a murder story and he is up and running. With its forensic delight in human idiosyncrasy and disordered passion, *La Cérémonie* is closer to *Le Boucher* or *Les Noces Rouges* (seen flickering on Bonnaire's television in a wry authorial self-homage) than to the last film based on this Rendell yarn, *A Judgment In Stone*. There Rita Tushingham battled melodrama and dud dialogue. Here we laugh in horrible delight and recognition at the characters, right up to the smile-wiping moment when a family's quiet evening in front of *Don Giovanni* on TV sends them all to hell.

Flights of fancy: Milena Pavlovic in Emir Kusturica's award-winning 'Underground'

Musical

'Tommy' rocks back

Pete Townshend's rock opera *Tommy* has taken a quarter of a century to reach the London stage in its definitive version. The word "spectacular" fails to do it justice.

Townshend and director Des McAnuff have fiddled about with the lyrics and storyline familiar to some from the 1969 album and Ken Russell's 1975 film. Captain Walker is now murderer rather than victim and Tommy's later messiah-hood is shot through with bitter cynicism. Most puzzlingly, it is deemed acceptable to portray sexual and violent abuse, mob brutality and even murder, but drugs get scarcely a look-in. It is impossible to tell on the strength of Nicola Hughes's admittedly electrifying portrayal why the Acid Queen is so called.

But the basics remain. Young Tommy, on witnessing a murder in the family, becomes deaf, dumb and blind, finding solace only in his reflection/alter ego in the mirror and, later, his astounding talent for pinball.

Following his spontaneous cure, he becomes an exemplar of sorts, but in this version, after a period of sinister basking in his new status, he rejects the adulation in favour of the redemptive power of normality.

Steve Margoshes's orchestrations make a few concessions towards the mainstream musical market, but the score remains identifiably rock rather than diluted pop. Indeed, at one or two points Colin Welford and his ensemble produce the finest arrangements I have ever heard of given numbers.

The lyrics have been more comprehensively rewritten – in some cases to tie in more closely with the narrative, in others simply because Townshend has had the chance to tinker.

Kim Wilde as Tommy's mother is called upon to act (often wordlessly) more than she is to sing. Generally, she fulfils the task admirably. Ian Bartholomew makes a plausibly unpleasant Uncle Ernie a world away from Keith Moon's *grand guignol*, though Hal Fowler's Cousin Kevin is a little too florid and operatic.

But it is Tommy whose performance matters most. Nineteen-year-old Paul Keating is, alas, not quite up to the role. He acts charisma rather than possesses it, with the consequence that the cured Tommy comes over less as magnetically-moody than just plain truculent.

The real star of the show, however, is the design. The scenery ranges from Gilbert-and-George-style projected backdrops to a whirling wall-of-death pinball machine. Curtains of white and coloured lighting combine with (thankfully underused) banks of video screens.

Costumes come in comic-book slabs of colour, with often frantic dance numbers amid which Tommy stands always alone in brilliant white. The combined effect is richly hallucinatory, and qualitatively different from any other West End musical.

Whatever qualifications are raised about moments, minor aspects or individual performances, *Tommy* as a whole is – to use an outmoded but thoroughly appropriate term – a trip. It even leaves Ken Russell's lysergic visuals on the starting-block. You won't see nothin' like it in any amusement hall.

Ian Shuttleworth

At the Shaftesbury Theatre, London WC2 (0171 379 5399).

Trevor Nunn: the shock of the old

Trevor Nunn is to be the next director of the Royal National Theatre. He will take over from Richard Eyre in the autumn of 1997.

"The challenge is immense and thrilling" said Nunn yesterday. "I will be taking the organisation out of the 20th and into the 21st century at a time when the mood of theatre should be celebratory and large projects are possible."

Nunn, 56, has a five year exclusive contract, leaving him with just a few days each year to keep an eye on the projects that have made him a multi-millionaire, his productions of successful mega-musicals like *Cats*, *Starlight Express*, and *Sunset Boulevard*.

Securing Nunn is something of a coup for the National. His name was not among those tipped as likely candidates for the job, which centred on a younger generation, notably Sam Mendes of the Donmar and Stephen Daldry at the Royal Court, both in their 30s.

But a happy experience when directing *Arcadia* at the National – his only connection with the Theatre – made him responsive to an approach from *Arcadia's* author, Tom Stoppard, who was on the working party to find a successor for Eyre. "When the thought crossed my mind I realised how thrilling it would be" said Nunn.

He can be seen as the perfect stop-gap while Mendes, Daldry, etc. develop, and approach 40. Nunn also has the right connections to find the £10m in partnership funding that the National must raise to be certain of lottery money for its planned foyer and backstage improvements. Its bid to the arts lottery board goes in this month.

The intriguing question is why Nunn should want the job. He spent 18 years, from 1968 to 1986, running a large theatrical company, the RSC, which was distinguished by such productions as *Nicholas Nickleby*, *Les Miserables*, and a musical version of *Comedy of Errors*. Near the end of his time there he shared the job with Terry Hands to give himself more freedom for freelance projects.

For the last decade he has enjoyed a rewarding life, choosing to work on major productions of opera, drama, television, film and musicals. Apart from the very remunerative Lloyd Webber musicals, there have been acclaimed successes, like *Porgy and Bess* and *Così fan tutte* at Glyndebourne, and *Antony and Cleopatra* and *Othello* for television. He has just completed a movie version of *Twelfth Night*.

Now in his 50s, he relishes one last challenge. He refused to be drawn on his plans for the National, but he will be spending much time there in the next 18 months getting to know a complex building with its three auditoria and a staff of approaching 800. He must also plan a programme which involves at least 17 new productions a year from October 1997. He will also be expected to direct some of them.

Nunn confirms his liking for the musical, and its place in a national theatre, and admitted that commissioning new writing had not been among his greatest accomplishments in the past. "It is entirely possible that I have not kept in touch with new writing", he confessed. He also admitted that his aim to draw in more first-time audiences to the National Theatre may result in a more "populist" approach.

Few immediate changes are anticipated. "I do not feel that my appointment means massive change". Nunn's salary will be the same as that of Richard Eyre; around £90,000 a year. But the money is hardly important. It is the challenge. "It has the delight of novelty and the fear of the unknown." says Nunn. "I am breathless with anticipation, excitement and anxiety". He was indeed almost lost for words yesterday as he praised his predecessor, Richard Eyre: "a brilliant act to follow".

The National Theatre probably thinks it has got the best of both worlds: a director with an international reputation who is fully committed to the institution for a limited period. Nunn may not create the waves that would have followed the appointment of Daldry or Mendes, but his appointment – the shock of the old – is very intriguing.

Antony Thorncroft

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Nederlands Philharmonisch Orkest: with conductor Hartmut Haenchen perform works by Wagner and Bruckner; 8.15pm; Mar 11, 12

■ ATHENS

CONCERT
Athens Concert Hall
Tel: 30-1-7282333
● Women and Music I: The Athens Trio perform works by Fanny Mendelssohn, Konstantia Gourzi, Jacquet de la Guerre, Lena Platonos, Amy Beach and Lila Lalaouni; 8.30pm; Mar 10

■ BERLIN

OPERA
Komische Oper Tel: 49-30-202600
● Le Nozze di Figaro: by Mozart. Conducted by Yakov Kreizberg and performed by the Komische Oper. Soloists include Schellenberger, Korondi and Oertel; 7pm; Mar 10
Staatsoper Unter den Linden
Tel: 49-30-2082861
● Tancredi: by Rossini. Conducted by Fabio Luisi and performed by the Staatsoper Unter den Linden; 4pm; Mar 10, 14 (7pm)

■ BONN

OPERA
Oper der Stadt Bonn
Tel: 49-228-7281
● Hänsel und Gretel: by Humperdinck. Conducted by Shuja Okatsu and performed by the Oper Bonn; 7pm; Mar 10

■ BUDAPEST

CONCERT
Academy of Music
Tel: 36-1-1189570
● Budapest Festival Orchestra: perform works by Mussorgsky, Tchaikovsky and Shostakovich. Part of the Budapest Spring Festival; 7.45pm; Mar 15, 16

■ CAPE TOWN

THEATRE
Nico Theatre Complex
Tel: 27-21-215470
● Elizabeth: by Dario Fo. Directed by Chris Weare. The cast includes Robyn Scott, Neels Coetzee; Mon 6.30pm, Tue - Sat 8pm; from Mar 11 to Mar 30 (Not Sun)

■ CHICAGO

OPERA
Civic Opera House & Civic Theatre
Tel: 1-312-332-2244
● Die Walküre: by Wagner. Conducted by Zubin Mehta and performed by the Lyric Opera of Chicago. Soloists include Eva Marton, James Morris, Poul Elming, Marjana Lipovsek and Matti Salminen; 6.30pm; Mar 12

■ COLOGNE

CONCERT
Kölner Philharmonie
Tel: 49-221-2040820
● Kölner Kammerorchester: J.S. Bach's Ich habe genug and Ich will den Kreuzstab gerne tragen, and Haydn's Die sieben letzen Worte unseres Erlösers am Kreuze; 11am; Mar 10
EXHIBITION
Wallraf-Richartz-Museum
Tel: 49-221-2212372
● Adam Elsheimer: Variationen zu "Die Steinigung des Hl. Stephanus": this exhibition focuses on the differences and similarities between the painting "Die Steinigung des Hl. Stephanus" by the German artist Adam Elsheimer (1578-1610), and a painting on the same theme in the Wallraf-Richartz-Museum; from Mar 12 to May 5

■ DRESDEN

OPERA
Sächsische Staatsoper Dresden
Tel: 49-351-49110
● Capriccio: by R. Strauss. Conducted by Christof Prick and performed by the Sächsische Staatsoper Dresden; 6pm; Mar 10, 14 (7.30pm)

■ EDINBURGH

DANCE
Edinburgh Festival Theatre
Tel: 44-131-5296000
● Les Ballets Trockadero de Monte Carlo: parody of classical work from Giselle to Swan Lake; 7.30pm; Mar 10

■ HAMBURG

OPERA
Hamburgische Staatsoper
Tel: 49-40-351721
● Armide: by Gluck. Conducted by Gerd Albrecht. Soloists include Sabine Ritterbusch (Mar 10, 13), Sabine Sommerfeld (Mar 17), Gabriele Rossmanith (Mar 10, 13), Olga Romanko (Mar 17) and Philippe Rouillon; 7.30pm; Mar 10, 13, 17

■ LEIPZIG

OPERA
Oper Leipzig Tel: 49-341-1261261
● Salome: by R. Strauss. Conducted by Jiri Kout and performed by the Oper Leipzig and the Gewandhausorchester; 6pm; Mar 10

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6388891
● Midori and Robert McDonald: the violinist and the pianist perform works by Mozart, Schubert, Prokofiev and Saint-Saëns; 7.30pm; Mar 10
Wigmore Hall Tel: 44-171-9352141
● Dénes Várjon: the pianist performs Beethoven's Sonata No.12 in A flat, Op.26, R. Schumann's Arabeske, Op.18 and Schubert's 4 Impromptus, D935; 11.30am; Mar 10
EXHIBITION
Royal Academy of Arts
Tel: 44-171-4397438
● Sir John Everett Millais and the Royal Academy: this exhibition marks the centenary of the death of Millais; to Mar 11
OPERA
London Coliseum
Tel: 44-171-8360111
● Tosca: by Puccini. Conducted by Sian Edwards and performed by the English National Opera; 7.30pm; Mar 9, 13

■ MUNICH

CONCERT
Philharmonie im Gasteig
Tel: 49-89-48098625
● Iris: by Mascagni. Concert performance by the Münchner Philharmoniker with conductor Gianluigi Gelmetti; 8pm; Mar 12 (7.30pm), 13, 15, 17 (1pm)
OPERA
Nationaltheater
Tel: 49-89-21851920
● Un Ballo in Maschera: by Verdi. Conducted by Peter Schneider and performed by the Bayerische Staatsoper; 7pm; Mar 10

■ NEW YORK

CONCERT
Alice Tully Hall
Tel: 1-212-875-5050
● Nancy Argenta: accompanied by pianist Eugene Asti. The soprano performs songs by Haydn, R. Strauss and American composers; 7.30pm; Mar 11

■ PARIS

CONCERT
Théâtre des Champs-Elysées
Tel: 33-1 49 52 50 50
● Orchestre National de France: with conductor Vassily Sinaïskiy and the Choeur de Radio France perform Tchaikovsky's Iolante and Stravinsky's Mavra; 8pm; Mar 15
OPERA
Opéra de Paris Bastille
Tel: 33-1 44 73 13 99
● Faust: by Gounod. Conducted by Yves Abel and performed by the Opéra National de Paris; 7.30pm; Mar 11, 14, 16, 20

■ ROTTERDAM

CONCERT
De Doelen Tel: 31-10-2171700
● Radio Filharmonisch Orkest: works by Haydn, Shostakovich and Hindemith; 8.15pm; Mar 10

■ STRASBOURG

OPERA
Théâtre Municipal de Strasbourg – Opéra du Rhin Tel: 33-88 75 48 00
● Alceste: by Gluck. The Opéra du Rhin and the Orchestre Philharmonique de Strasbourg; 8pm; Mar 10, 12

■ VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Yo-Yo Ma and Kathryn Stott: the cellist and pianist perform R. Schumann, Bartók, Bridge, Debussy and Brahms; 7.30pm; Mar 11

■ ZURICH

OPERA
Opernhaus Zürich
Tel: 41-1-268 6666
Le Nozze di Figaro: by Mozart. Conducted by Nikolaus Harnoncourt and performed by the Oper Zürich; 2pm; Mar 10

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Peter Martin

No more cosy backyards

The pervasive European attitude that local companies possess an inherent right to their domestic markets has been overtaken by the process of globalisation

The German post office's attempt to deter Citibank from mailing electronically-generated credit-card statements into Germany from the Netherlands neatly encapsulates the dilemma posed for business by the process of globalisation.

As usual, there are individual peculiarities to the case, which was reported in Monday's FT. The universal mail service is not quite a normal business. One way in which it is different is that there is a global agreement to stop customers playing off one national postal authority against another by "remailing" domestic mail from abroad. Yet this is not classic remailing: Citibank and GZS, a German credit-card processor, are shipping electronic data from Germany to the Netherlands: the statements only take physical form on paper in Arnhem, before entering the mail back to Germany.

There are enough niceties here to keep lawyers tied up for months. But whatever the wrinkles of the case, it is hard to believe that, in the long run, Deutsche Post will succeed in keeping price competition at bay. And that is where globalisation comes in.

To economists, it means the creation of an integrated global economy in which – as Martin Wolf put it recently on these pages – "prices of goods, services, labour and capital tend to equalise across the world, subject solely to differences in quality, largely because of the absence of artificial or natural obstacles to movement."

Clearly, as he pointed out, we are still a long way from that. Yet to business managers, globalisation has a more narrow meaning, one which is already a powerful influence on the way they run their companies. It means the end of cosy domestic markets, and of the safe profits that such sanctuaries used to offer.

One by one, the layers of protection have been stripped away. Falling transport costs have lowered the barrier of geographical distance; tumbling tariffs, deregulation and the creation of free trade areas have removed another type of protection.

The homogenising force of popular culture – films, music, television – has meant that for many categories of goods, traditional differences of national taste have also become much less important. Now electronic communications, by allowing the cross-border shipment of information, is permitting remote delivery of services, including the customer services that are an essential part of sales transactions for many types of manufactured goods.

So companies are finding that their home markets are increasingly threatened by competition. It is not their sales volume that is most at stake: a well-managed business with a 100-year head start can usually retain the lion's share of local sales. The threat is much more to profitability, as the traditionally comfortable pricing which home-market dominance has permitted is competed away.

No more cosy backyards: that is what globalisation means for the company. And it is producing a marked change in business behaviour. Managers have to make a choice between two fundamentally different approaches to this threat.

The first is essentially defensive: establish which geographical regions and products the "home market" advantage applies to, and then put maximum efforts into defending and exploiting this edge.

That means an ever-closer focus on customers' preferences, and a willingness to tailor products and services exactly to those desires. It means striking a balance between reaping the maximum profits from this advantage and keeping prices low enough to keep competitors at bay. And it means a conscious modesty in aspirations: a willingness to retreat from unprofitable overseas ventures, to accept limits on revenues – and perhaps on executive salaries also.

The alternative approach is to accept that home-country advantages are disappearing rapidly, and that only an aggressive push overseas will compensate for the lost profits. That means creating a global presence and perhaps – in the case of consumer goods – a global brand. It is inherently a risky strategy, since it means competing on a wide scale not only with local competitors seeking to retain their home-market advantages but also with other would-be global companies trying to establish themselves before it is too late.

This is, in a sense, a replay of an earlier era of business history. In waves from the late 19th century on, local businesses have been replaced by those operating first at a regional then at a national scale.

On the face of it, the third stage of this process – the replacement of national companies with global ones – has already taken place. Yet that is an illusion. Most big companies are still managed, at the top, by nationals of their home countries. They still add most of the value to their products in their home country (especially in research and development). And they still derive a disproportionate share of their profits from their home markets.

The process now under way is one in which these disguised national companies become global ones, not necessarily in management or domicile but certainly in sales, profitability and – as capital markets integrate – in ownership. In this process, many of the would-be globalisers will lose. Yet companies have only a limited choice: they must settle for one of the two strategies outlined above. Neither is entirely palatable.

The first approach implies a reduced set of expectations which any enthusiastic manager will find irksome. It may, in any case, prove ultimately unfeasible if markets integrate to such an extent that global competitors swamp even the best-defended national company. The second approach is highly risky. It may appeal to managers, but it may be less attractive to the shareholders whose equity is being gambled at relatively long odds.

Only one thing is certain: an in-between strategy is likely to involve the worst of all worlds. Companies that do not possess the ambitions or the skills to transform themselves into true global businesses over the next few years, but which do not limit themselves to defensible local positions, will find they reap the rewards neither of modesty nor adventure.

Their attempts to retain a global presence will saddle them with cost structures and a lack of focus which prevents the benefits of their strong local positions from feeding through to the bottom line. Worse, this pattern of behaviour will undermine their attempts to build sustainable defences at home. Yet because they do not have true world-wide brands or strong competitive positions, they will be unable to remain in the fray long enough to reap the rewards of the global restructuring.

The nagging fear is that too many of the companies that fall into this in-between category will turn out to be European. As the first mass consumer society, the US has established a long lead in creating global brands. The American domestic market is also large enough to make a purely domestic strategy feasible.

European companies have fewer strong global brands, and a fragmented regional market; their attempt to build an international presence risks saddling them with the costs of world-wide infrastructure without the profits to support it. The biggest companies in Japan and Korea have shown a single-minded determination to create global businesses; they cannot be faulted for ambition, at any rate.

Deutsche Post, of course, does not have to make this choice; postal services face a rather different set of competitive pressures. Its attempt to stop its customers escaping reflects, however, a pervasive European attitude – a belief that local companies possess an inherent right to the domestic market. That may have been true once, but as Deutsche Post has found, it is no longer true today.

BOOK REVIEW · Alan Cane

JAPAN'S COMPUTER AND COMMUNICATIONS INDUSTRY: The evolution of industrial giants and global competitiveness
By Martin Fransman
Oxford University Press, £30

Japan's leap from an electronic springboard

The Japanese electronics industry is a tantalising combination of spectacular success and comparative failure. After the second world war, its information technology and communications companies were far from the leading edge of their global industries. Yet today its consumer electronics and semiconductor groups are at the forefront, having caught up with and often surpassed their western counterparts.

At the same time, Japan has failed to make much of an impact outside its home shores in computer hardware and software or in telecommunications, key elements of the information technology revolution in the west.

Mr Martin Fransman, director of the Institute for Japanese-European Technology Studies at Edinburgh University since 1986, seeks to explain this paradox. The latest in a series of detailed studies into the Japanese industrial phenomenon, his book is essential reading for anyone seeking to understand the postwar development of the global computer and communications industries.

A number of interlocked themes run through the analysis which help to explain, for example, the speed with which Japanese computer companies have emulated western advances yet failed to make much impact outside Japan.

One common theme is "controlled competition", a form of organisation developed and orchestrated by the Japanese Ministry of Communications in the 1920s and 1930s. This allows Japanese companies apparently to collaborate at one level while competing fiercely at another.

Fransman describes how it operates in relation to NTT, Japan's largest telecoms company: "On the one hand, each supplier co-operates with NTT and the other suppliers in jointly developing equipment. On the other hand, there is a degree of competition between suppliers in selling the jointly developed equipment to NTT."

He goes on to say that "this competition is not of the 'winner takes all' variety. Rather, it involves controlled competition in so far as, contingent on reasonable performance as judged and monitored by NTT, each supplier can expect to receive a sizeable share of NTT's order."

The effect was to give Japan by the end of the second world war four companies with skills and experience in producing complex telecoms equipment which proved an invaluable springboard into semiconductors and computers in the modern electronics era.

Technological competences are not enough, however, as Fransman indicates through a second theme – "interpretive ambiguity". This occurs when there is genuine uncertainty about the direction in which a company should go because information that might help make the decision is too sparse or contradictory.

In the 1970s and 1980s, for example, it became clear to many telecoms companies that sooner or later, an expensive and risky move would have to be made to switching systems based on digital technology – cheaper, faster and opening the door to a galaxy of services.

Northern Telecom, the Canadian company, was the first to make the jump, believing – correctly – that the miniaturisation of electronic components, cutting costs enormously, would tilt the economic balance towards digital switches. It thus stole a lead from US and Japanese competitors which took a more pessimistic view.

Fransman believes the global competitiveness of Japanese IT companies lies in their broad technical competences, organisational strength and ability to develop global standards. But he is also aware of their weaknesses, an insularity which means they have often created products which suit Japanese rather than western tastes and which follow Japanese rather than international standards.

"Although Japanese information and communications companies have come a long way since their founding," he concludes, "they still have some way to go if they are to emulate the success of their counterparts in motor vehicles and consumer electronics."

The somewhat insular title fails to capture the global scope of the study.

He explains, for example, the repeated failure of AT&T, the US telecoms group, to make much of a mark in computers. That was because the company agreed with the Justice Department in 1956 not to compete in general purpose computers in return for retaining its monopoly in the telephone business.

He also explains the failure of the UK in telecoms switching: a case of "death by misadventure" caused by an over-optimistic view of the rate at which electronics-based technology would replace the old electromechanical variety.

Fransman provides, furthermore, a competent introduction to many of the important technologies which have changed the direction of the telecoms and computer businesses. Each principal chapter provides a complete guide to its subject – for example the evolution of the Japanese telecommunications switching or optical fibre industry.

It is probably impossible to create a "grand, unified theory" of the world electronics industry even in such a volume. Fransman is forced to provide explanations on a somewhat piecemeal basis. But that in no way detracts from what is a redoubtable contribution to an understanding of the global electronics business.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Issues about use of arms not always so clear

From the Rev Tom Mendel.

Sir, The Dean of Salisbury ("Truth of the matter", Weekend FT, March 2/3) makes an effective point about conscience, but at, dare I suggest it, too high a cost.

That individuals must face up to the consequences of their actions is a *sine qua non* of Christian belief, to say nothing of any system of natural law.

That the issues in the case of the bombing of Nagasaki are as stark as the dean implies is surely less clear. The events at Pearl Harbour in December 1941 were set in train by, and themselves set in train, actions of which all the perpetrators might indeed have cause to feel sorrow and repentance. War having come, though, the sad reality that the less bad is often the best that can be done was compounded by the truth that to opt out of doing anything may possibly be the worst that can be done. That opting out may also seem to be contrary to the apparent nature of God incarnate is, at the very least, an added consideration.

To help face the dilemmas of war, the Church has formulated ideas of what constitutes a just war. It can certainly be argued that the use of nuclear weaponry sits ill with its criteria but at least those criteria provide a rational counter to the simplistic claims, however just, of the heart, on which the dean sets such store.

As to the dependence of the British economy on the arms industry, perhaps he would be comforted by re-reading Samuel Brittan's heartening analysis of that question ("Bad excuses for arms sales", February 19). With regard to the issues in and behind Sir Richard Scott's report, I rather suspect the dean to be absolutely right, only not because of his reading of Nagasaki. My real problem, though, stems from his mention of tobacco for my "one a day after dinner" makes me guilty by association, which perhaps brings us back to where we started.

Tom Mendel,
All Saints Church,
Via Solferino 17,
220121 Milan, Italy

Rate of income change crucial

From Mr William Claxton-Smith.

Baked beans analogy misses economic reality

From Mr Richard Abramson.

Sir, How excellent is Mr Adrian Jack's baked bean analogy (Letters, March 5) showing that pensions can be after some were "laid down". I particularly savour the toast: obviously I'll need to bake the bread fresh, but using 40-year-old flour (and taking consumption without relying on charity or government handouts. But it cannot change the underlying economic reality that current

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FINANCIAL TIMES

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Thursday March 7 1996

The carve-up of food names

Would a cheese by any other name sell as well? The answer, hope Greek producers of traditional feta cheese, is a resounding no. If they are right, they should be very pleased with the European Commission's decision to place before the council of ministers a proposal to register the designations of origin of 318 agricultural and food products. But should others be as delighted?

Before anyone starts protesting about heavy-handed regulation by the Commission, the responsible parties must come forward. They are, as so often, the member states, many of which wish to extend the designations they protect at home throughout the EU. Since 1,400 products have already been put forward by the members, this proposal is merely the first slice of a fat cheese.

In defending the proposal, the Commission argues that "when a food product becomes well-known outside its area of origin, it may find itself competing in the marketplace with imitation products making use of the same name. This unfair competition not only undermines the efforts made by the producer or manufacturer to acquire the good name in the first place, it leaves consumers confused as to which product is genuine and which is a copy."

There is some sense behind this. Surely, *Volailles d'Alsace* should come from Alsace, Orkney beef from Orkney and *Prosciutto di Parma* from Parma. Yet does the ham still deserve to be so described if the pigs do not come from Parma? Does it also have to be cut and packed in Parma? Where, in other words, does protection become protectionism?

Two other issues arise. First, the borderline between names that can no longer be protected and those that can is disturbingly arbitrary. One can, it has apparently been agreed, make brie, camembert, cheddar, edam, emmentaler and gouda cheese anywhere, but feta must come from Greece. Yet this fuzzy borderline is also the one where the distinction matters because the most valuable designations are inevitably those, like feta, which others are borrowing.

Second, in cases where there is little possibility of such borrowing, the regulation looks like a typically bureaucratic hammer to crack a *Noix de Grenoble*. Are producers all over Europe really trying to pass off vulgar honey as *Mel das Terras Altas do Minho*, or one of the other designations Portugal has had protected? And why does Germany wish to designate 399 varieties of mineral water? Would any plebeian mineral water dare to pass itself off as from aristocratic *Rilchinger Gräfin Mariannen-Quelle*?

Fortunately, even protected products will in the end have to make their way in the market. If consumers prefer the Danish substitute for feta, under whatever name it may be given, the protection granted to the Greek product will not help its producers that much. Given that reality, the best response to the regulation is the still undesignated Gallic shrug.

Clinton v Dole

US senator Robert Dole, forever a contender, at last appears to be heading for the Republican nomination for the presidency. Indeed, his prospects now look as good as they did at the start of the campaign; the greater surprise is how nearly he was derailed. His struggle makes some telling points about the national mood, and about the issues both Democrats and Republicans must face.

A November battle between President Bill Clinton and Mr Dole, the Senate majority leader, would represent the triumph of the mainstream of both parties. The conventional wisdom that Mr Dole's radical rightwing rival, Mr Pat Buchanan, was unelectable will have been borne out. The rejection of many of the extreme policies espoused by Mr Buchanan is welcome; in particular, protectionism and attacks on corporate greed and abortion do not appear to have enough resonance nationally. His isolationist stance did not offer a unifying vision.

Nonetheless, the popular anxieties he reflected remain. Government remains a dirty word, and the authority of the presidency and Washington is questioned. Many working class and middle class Americans feel intensely vulnerable to social change and worry about low wages and job insecurity. Mr Buchanan could not supply the answers; Mr Clinton and Mr Dole must now try.

Both Mr Clinton and Mr Dole are likely to fight on remarkably traditional platforms for their respective parties, representing the compromises of the centre. Mr Clinton will continue to argue for steady but humane reform of social policies. Mr Dole is likely to return to campaigning on such conventional Republican issues as balanced budgets, lower taxes, small government, and law and order, rather than the libertarianism of elements of the Contract with America. In doing so, he will attempt to appeal both to the social conservatives who supported Mr Buchanan, and to economic liberals who would not.

On trade policy, Buchanan's protectionism demands a response. So far, both sides of the political divide have been muted in putting the case for free trade. Mr Dole spared few words for it in South Carolina, while the Clinton presidency, though liberal overall, has occasionally displayed mercantilist instincts, for instance towards Asia and the Middle East.

The full implications of a Clinton-Dole battle remain obscure, in particular for the composition of Congress. A Dole nomination could, for example, fail to energise the Republicans; many were clearly unhappy with the choice of candidates presented to them, and may refrain from voting. More unpalatable details about the past of the president and his wife may emerge. Nonetheless, the tussle for the Republican nomination has at last delineated the ground where the battle will be fought.

Helping Castro

The shooting down by Cuban jets of two unarmed light aircraft heading for the island from Miami deserves unequivocal condemnation. But the decision by US President Bill Clinton to extend the retaliation against the government of Fidel Castro by agreeing to back new trade sanctions against Cuba is a mistake.

The proposed Cuba Liberty and Solidarity Act that would extend the sanctions is bad law. Some of the reasons for this were earlier identified by Mr Clinton when he vowed to veto the legislation. The downing of the aircraft, reprehensible as it was, does not change bad law into good.

The most contentious provision of the legislation would allow Cuban exiles to sue foreign companies using expropriated property in Cuba and exclude these companies' executives from the US. The president can waive this provision for six-month periods – but given that electoral considerations appear to have been behind his change of mind in the first place – he may not wish to use this power in an election year.

This aspect of the law seems bound to bring the US into serious conflict with its allies, which rightly view it as an attempt to extend the reach of the US courts to other nations. It will also contradict a number of international commitments by the US.

It could bring complaints from the European Union and others to the World Trade Organisation; it may breach provisions of the North American Free Trade Agreement. It raises questions about the seriousness of other US initiatives, including efforts to introduce binding rules for international investment through the Organisation for Economic Co-operation and Development.

There is also a broader concern for allies of the US in the decision of Mr Clinton to cede an important foreign policy decision to one of the most isolationist Congresses for many years. It is an unfortunate precedent.

From a purely US domestic perspective, the law is also questionable. It would make Cuban-Americans the only national group in the US with the right to pursue through the US courts settlements for property expropriated by other countries, and therefore discriminates against Polish-Americans, Palestinian-Americans and other groups. The provision which places a $50,000 limit on claims through the courts – an attempt to reduce the inevitable flood of litigation which could follow – also favours wealthier Cuban-Americans over poorer countrymen.

Above all, the legislation will do nothing to speed the unseating of Fidel Castro. The US embargo has long allowed him to blame the country's economic plight, which properly lies at his door, on Washington. This piece of legislation will merely help feed this malign domestic propaganda.

When politics precedes price

The Natuna gas field's size and complexity makes it one of the industry's biggest challenges to date, say Manuela Saragosa and Robert Corzine

Plans to develop one of the world's largest natural gas fields in Indonesian waters off Borneo are evoking strong emotions in the region and in the industry.

To its supporters, the Natuna field is a unique energy resource in the midst of the the world's fastest growing economies. Its future revenues are badly needed by Indonesia.

But critics say the plan to exploit the reserves off Natuna, an island about 600km north-east of Singapore, will consume billions of dollars of investment and produce gas at costs well above current market prices.

The only point of agreement is that Natuna's size and complexity make its development one of the oil industry's most challenging projects to date. The field is the largest undeveloped hydrocarbon resource in south-east Asia, comparable in size to Norway's Troll, western Europe's largest gas field.

Total gas volumes are around 210,000bn cubic feet, or 6,000bn cubic metres. Only a quarter of this is useable, but even that would be enough to meet Japan's total natural gas needs for 17 years.

Plans to develop it have been studied since 1980. But in 1994 Exxon, the largest US oil company, and Pertamina, Indonesia's state oil company, launched a joint partnership to exploit the field, with the aim of launching the eight-year construction phase in 1997.

There is little doubt of the political will to develop Indonesia's natural gas output, with the country's balance of payments suffering as oil production has declined. The Jakarta government has set up a series of high-powered committees to get the Natuna project moving, involving some 16 ministers.

Mr Jusuf Habibie, Indonesia's ambitious minister of research and technology, is chairman of the Natuna Project Execution Team, the most important of the committees. Its advisory team includes General Feisal Tanjung, the powerful armed forces chief.

"No one should underestimate the determination of those involved to make it work," says an industry analyst familiar with the project.

No big engineering contracts have yet been issued, although Pertamina officials say those companies which have invested in Indonesia or have a presence there will rank among the favourites. "If you don't fulfil this condition, you're not in," notes one western diplomat.

A leading role looks likely for Amec, the UK construction company which has been asked by Jakarta to organise an engineering consortium. Amec is already well-established in Indonesia, working on a joint venture with PAL, the state-owned shipbuilder which is one of several "strategic" industries that Mr Habibie takes an interest in.

However, sceptics in the oil industry cast doubt on the viability of the Natuna project. In spite of its location in the centre of an energy-hungry region its development has proved troublesome.

The main problem is that 71 per cent of its contents is unwanted carbon dioxide, a "greenhouse gas" associated with global warming. Extracting and disposing of it in an environmentally acceptable way is technically difficult and contributes to the forecast development cost of more than $40bn, one of the most expensive gas projects ever undertaken.

Some industry observers say Pertamina and Exxon will need to get $4.50-$5 per million BTUs for Natuna gas – well above the prevailing price of $3-$3.70 for natural gas landed in Japan, the biggest energy markets in the region.

Natuna officials are reluctant to discuss pricing, and note that competitiveness can be measured in other ways. They believe that customers might be prepared to pay extra to secure supplies closer to home, rather than from potentially less stable Middle Eastern liquefied natural gas suppliers.

"We don't use the word 'premium'," says Mr Fritz Voigt, vice-president of Exxon's international gas division. "And we don't want a project that needs a premium. We expect every project to stand on its own."

But he adds there may be many factors to take into account in deciding whether the project is viable. "Profitability is in the eye of the beholder," he says. The Indonesian government, for example, says that there will be benefits for Natuna island in the exploitation of the gas field. The project will bring investment to the island, contributing to the economic development of the remote area.

And Natuna officials believe they can find "ways to share the pain". To secure supplies from the region, buyers might agree to pay higher prices in the early years to reflect the heavy initial costs of building infrastructure such as a harbour, airport and town on Natuna island.

This might be offset by the phased development plan which will defer other costs untill later in the project. Natuna's eventual capacity will be 12 processing units or "trains" producing 15m tonnes of liquefied natural gas a year. But initially only two will be built out of six scheduled for phase one. There is also the possibility of increasing the project's revenue in the early years by exporting the gas to Thailand through an under-sea pipeline.

"It is an appealing idea," says Mr Voigt, who foresees no major technical problems in laying the 1,000-mile pipeline from the offshore platforms to Thailand.

However, Natuna's backers have yet to establish a market for the field's gas. No sales agreements have been signed and without them financing cannot begin.

Mr G.A.S. Nayoan, senior executive vice-president of Natuna Gasfield Development, the government committee working on the details of the project, says that Pertamina has convinced potential buyers of the project's technical feasibility. But commercial negotiations have yet to begin. Japan, the biggest buyer of Indonesian natural gas, is the logical target. In November, 13 potential Japanese buyers and financiers – including Nissho Iwai, Marubeni, Mitsubishi, three private Japanese upstream oil companies and the Japan National Oil Corporation – were flown to the US for long briefings from Exxon on the technical aspects of extracting Natuna's carbon dioxide.

The plan is to dispose of it in an aquifer, an underground rock formation which stores gas or liquid. "We are satisfied that all their questions were answered," says Mr Voigt.

Natuna executives believe growing concerns in Japan about the future of nuclear energy could enhance the attractiveness of natural gas in general and Natuna gas in particular. "I don't want to bank on such political changes," says Mr Voigt, but "there could be more upside than downside" for Natuna.

Other potential markets are Taiwan and South Korea. There could also be future demand from China, which "a few years ago was not even a topic for conversation", according to Exxon.

Opponents of Natuna, meanwhile, say that the priority being accorded the project will mean that development of other gas discoveries in Indonesia will be neglected. Arco, the US company, has discovered a promising gas field in Irian Jaya with smaller reserves thought to be around between 5,000bn and 15,000bn cubic feet and a carbon dioxide content of only 10 per cent.

"It would be very difficult to launch Natuna at the same time as Arco's [new discovery]," says one Jakarta-based oil and gas executive. "Without Arco, Natuna was difficult but now frankly there is possibly a much cheaper source of gas which is much more profitable for Indonesia."

Natuna will "compete against whoever stands up", says Mr Voigt at Exxon. For all its complexity, it has one clear advantage: its size will guarantee the country's role as a leading supplier of liquefied natural gas well into the 21st century.

Mr Nayoan says that Natuna is "on track and on time", but analysts say several big issues need to be solved soon. One is to sign up buyers for the gas before construction begins next year.

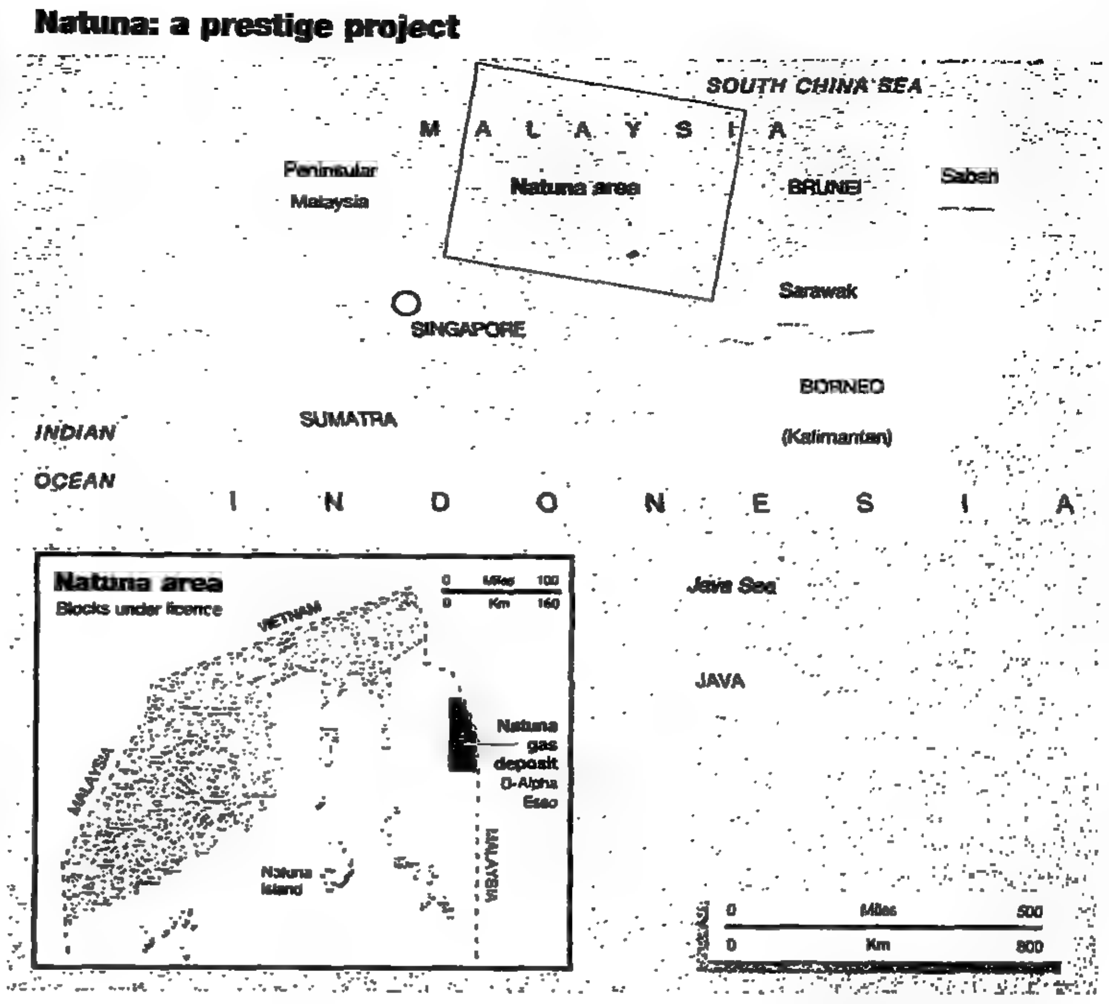
Mr Voigt says Natuna is "much closer to the point of making arrangements with the markets" than commonly thought, but he declines to be drawn on timetables. "We won't be held hostage to self-imposed deadlines," he says.

Another priority is to agree the equity structure for the project. Pertamina and Exxon each have a 50 per cent stake but are keen to involve others to spread the risk.

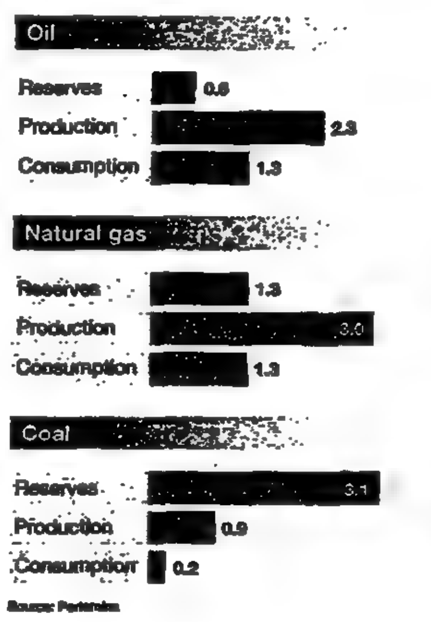
Mobil Oil of the US is negotiating for a 26 per cent share that would come out of Pertamina's interest. Japanese companies are also interested in part of Pertamina's stake, although negotiations will not start until agreement has been reached with Mobil. The idea is that Pertamina would be left with an 11 per cent holding in the project.

However, there is confidence among those involved in the project that issues such as these can be resolved. The heavy political commitment of Jakarta to Natuna means that it is seen as much as a symbol of national prestige as a commercial venture. If Indonesia is to secure the leading role as a natural gas supplier to Asia, failure is not an option.

Natuna: a prestige project

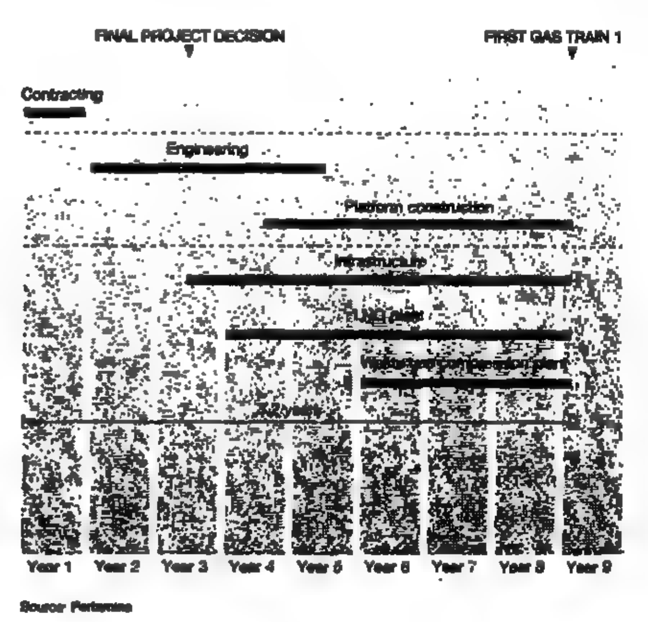


Indonesia: a share of the world
Fossil fuels, 1994



Source: Pertamina

The project schedule



Source: Pertamina

· OBSERVER ·

The Union's Trumpf card

■ Now that British foreign secretary Malcolm Rifkind has given a cautious blessing to the idea of a new foreign policy representative for the EU, many are wondering who he has in mind.

The UK Foreign Office says it's premature to present a list of candidates, though London has a sneaking admiration for Carl Bildt, the ex-Swedish premier now heading reconstruction efforts in Bosnia.

But an independent-minded Bildt may not suit France, the other chief supporter of a figure to give a clearer voice to EU foreign policy. The obvious French candidate is ex-president Giscard d'Estaing.

And the smaller EU countries and Germany are not keen on appointing a political heavyweight who could threaten the European Commission which, incidentally, has four different Commissioners running external relations.

The EU may thus turn to someone with a lower profile on the international stage – more a discreet backroom operator than a sound-bite *meister*. Enter Philippe de Schoutheete de Tervarent, the Belgian *eminence grise* and doyen of EU ambassadors in Brussels.

Berlin-born de Schoutheete, who speaks Etonian English and comes from a long line of Belgian aristocratic diplomats, is one of the architects of the Maastricht treaty's provisions for a common foreign and security policy. He's said to be interested in the job, not least because he narrowly missed the post of secretary general of the European Council in 1994. That went to Jürgen Trumpf, former German ambassador to the EU.

Just one minor problem: Trumpf, seeking to protect his own patch, may claim the foreign policy job for himself.

Who can say?

■ Good to know that SNCF, the French railway company which generated losses of more than FFr16bn last year, has come up with innovative new ways to spend money under its recently-appointed chairman, Loïk Le Floch-Prigent.

It's lashing out FFr10m on a market research campaign – including advertisements in the style of questionnaires in the press – asking customers such things as whether they would like clearer and more rapid information on services, and if they would prefer low fares.

For FFr10, we'll happily supply the answers.

Turkey roasted

■ Turkey's army is distributing a booklet – called "Guidelines for Public Relations and Ways to Win over the Population" – to conscripts heading off to fight anti-government insurgents. The pamphlet exhorts them to pay for any damage they may inadvertently cause local villagers. It suggests they attend weddings, join in folk dances, and assist at funerals. Soldiers should not haggle; on the contrary, when buying something they should pay more. They may accept offers of tea or food but should politely refuse presents. Soldiers should not search women.

At all costs they should eschew exhibiting "mutilated bodies of slain terrorists in village squares" to intimidate the people, as foreign media misunderstand this tradition.

Plumbed in

■ What do you do while your washing goes round and round at the launderette? Traditionally a good place for pick-ups, many American launderettes incorporate coffee bars, newspapers, books, and television. Now New Orleans' Tropic Wash 24 hour laundromat claims to be the only launderette in the world which is on the Internet; customers surf the net, while their clothes surf the washer.

Jam tomorrow

■ Looks like the pro-EU sectors of the Tory party are getting rattled by rumours of a cosying-up between prime minister John Major and the Marmite monarch, Sir James Goldsmith.

Goldsmith plans to field candidates from his Referendum party in the next UK general election. Tory party managers are privately fearful that Goldsmith's cohorts will steal alarming numbers of erstwhile Tory voters. Hence those rumours – which refuse to lie down and expire – of a deal. Any such deal would naturally be rather embarrassing for Tory MEPs.

So last night Tom Spencer, chairman of the Tory MEPs, was due to take the initiative at a meeting with the Conservative party's backbench committee on Europe. His message was that Goldsmith is intelligent, energetic and generally laudable – but also a talented self-publicist intent on destabilising the Tory party. Ten out of 10 for that.

By a strange coincidence, party chairman Brian Mawhinney should be telling Tory MEPs today that they've nothing to worry about. For which, one out of 10.

Crumbling away

■ The European Commission says that the name feta can apply only to cheese made from goat's milk in Greece.

Rival Danish producers, who use cows' milk, are up in arms. Surely they recognise a fetaccompli when they see one?

The Financial Times

100 years ago

Assassination rumour denied

Paris, March 5:- A rumour is current here this evening that Signore Crispi has been assassinated. A similar report is also being circulated in Brussels.
Toulon, March 5:- It is stated here that travellers entering France from Ventimiglia across the Italian frontier report that Signor Crispi, the Italian premier, has been assassinated. They add that the Premier received seven stabs with a dagger.
Rome, March 6:- The reports which gained currency in Paris and Brussels yesterday evening that Signor Crispi had been assassinated are completely unfounded. No attempt has been made on the life of Signor Crispi.

50 years ago

A world price for tin

It is high time that the present muddle over tin prices was clarified. At present, there is no world price; each country has its own, and the British producers receive the least or have been offered a price well below the level in the rest of the world. For Malaya it is not possible at the moment to give production costs accurately, but it is quite evident that they will be much higher than before the war. An estimated 60 per cent rise in the labour costs would be conservative.

FINANCIAL TIMES
Thursday March 7 1996

One in nine out of work ■ Doubts on growth

German unemployment at highest level since war

By Peter Norman in Bonn

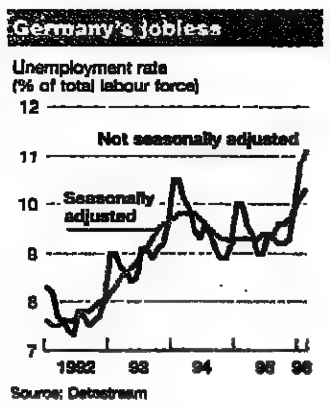
Unemployment in Germany rose to a new postwar high last month, casting fresh doubt on the government's forecast of 1.5 per cent growth this year and prompting the opposition Social Democratic party to accuse the ruling coalition of inaction.

The federal labour office yesterday reported one in nine of the labour force was out of work at the end of February because of the weak economy, bad weather and a sharp downturn in the construction industry.

Germany's seasonally unadjusted jobless total increased by 111,500 last month to 4.27m and was 443,500 higher than at the end of February last year. The "headline" unemployment rate rose to 11.1 per cent from 10.8 per cent in January and 10 per cent in February last year.

Eastern Germany was especially hard hit, with 1.31m people or 17.5 per cent of the labour force out of work. In western Germany, where 2.96m were jobless, the unemployment rate was 9.6 per cent. Mr Bernhard Jagoda, the labour office president, said this year's record unemployment reflected the loss of 262,000 construction jobs in January and February. Although the hard winter was partly to blame, companies were also reacting to a lack of orders.

Germany's jobless



Source: Datastream

February's jobless total was less than indicated by some recent forecasts. But it unleashed a wave of recrimination in Bonn.

Mr Oskar Lafontaine, the SPD leader, said the labour market situation was "dramatic". Accusing the government of inaction, he demanded cuts in non-wage labour costs, limits on overtime, lower income taxes and restrictions on the influx of ethnic Germans from eastern Europe and the former Soviet Union.

Although Mr Helmut Kohl's government announced a 50-point programme for growth and employment at the end of January, with the ambitious goal of halving unemployment by 2000, there have been serious delays in implementing the measures.

In particular, the "alliance for jobs", in which government, industry and trade unions are supposed to work together to create jobs in return for wage restraint, has been slow to get off the ground.

While Mr Jagoda and Mr Norbert Blüm, the labour minister, yesterday called for fresh efforts to launch the alliance, Mr Werner Stumpfe, designated leader of the metal industry employers, predicted that it would fail.

There was no relief in yesterday's labour office report. On a seasonally adjusted basis, unemployment rose by 107,000 last month to 3.97m. This increase, at nearly twice the pace of the previous three months, brought the adjusted jobless rate to 10.3 per cent of the labour force from 10.1 per cent in January.

EU growth setback, Page 2

EU may challenge US over threat to Cuban trade links

By Guy de Jonquières and Stephen Fidler

The EU will consider tomorrow whether to challenge proposed US legislation which could unleash a torrent of US court cases against foreign companies doing business in Cuba.

A last-ditch effort to head off the legislation will be made today when the Spanish EU presidency delivers a formal protest to the US, saying the EU reserves the right to seek redress in the World Trade Organisation and other international bodies.

The legislation – the Cuba Liberty and Solidarity Act – was approved by the Senate on Tuesday and was expected to be passed by the House of Representatives yesterday. President Bill Clinton is expected to sign it into law later this month.

Among its provisions are:

- Giving US citizens the legal right to sue in US courts "traffickers" in property "confiscated" by the Castro government after it came to power in 1959.
- Denying US visas to people identified as "traffickers". These would apparently include executives of foreign companies judged to have invested in property in Cuba which had been expropriated by the Castro regime.
- A US ban on imports from its trading partners of products containing sugar and other raw materials originating in Cuba.
- Reducing US aid to Russia by the amount of its aid to Cuba.

Among prominent European companies with investments in Cuba are Stet, the Italian telephone company, Tabacalera, the Spanish state-owned tobacco company, Pernod Ricard of France, BAT Industries of Britain, and Unilever, the Anglo-Dutch consumer group.

EU trade lawyers believe the legislation breaches the WTO's Most Favoured Nation principle and rules prohibiting quantitative restrictions on trade.

However, some EU member governments favour deferring a decision on whether to activate WTO machinery until Mr Clinton indicates what he plans.

Lodging a formal complaint with the WTO, which would seek to have the legislation declared illegal, is one of several options likely to be discussed at a meeting tomorrow of senior officials responsible for co-ordinating EU international trade policy.

Action may not deter many investors, Page 4
Editorial Comment, Page 13

Pay-TV row

Continued from Page 1

own plans for satellite services in Germany and France. CLT, in which Havas has a stake, said the pact had "the effect of cementing the arrival of Murdoch in continental Europe". Canal Plus said the pact ruled out the possibility of the new holding company operating in markets where it is already strong.

Two of Dole's rivals drop out

Continued from Page 1

his presumed frontrunner status had seemed in doubt. The net effect was to put him comfortably ahead in the race to win delegates to the party's convention in San Diego in August.

He now has 276 of the 996 delegates needed to secure the nomination, according to one news agency tally, well ahead of Mr Forbes with 69 and Mr Buchanan with 53. He is also favourite in New York, which chooses another 102 today, and in most, if not all, of the six states voting next Tuesday, where 353 are at stake.

Mr Buchanan half-promised to support Mr Dole if he became the nominee. But he continued to attack the majority leader's campaign as "vapid".

UK plans to end telecoms network duopoly

By Alan Cane

British Telecommunications and Mercury Communications, the UK's main telecoms operators, will lose the exclusive right to provide international services over their own networks under government proposals announced yesterday.

The move would bring lower prices for customers and help to preserve Britain's position as the European leader in low cost telecoms. It seems likely to go ahead, and other operators will be applying for international licences this summer.

Among the expected beneficiaries of the change are AT&T, the largest US operator, Unisource, its Dutch-based European partner, and Energis, the telecoms operator owned by the National Grid. Many smaller operators are also expected to benefit.

Operators will be able to apply to the British government for international licences permitting them to build their own network infrastructures – undersea cables or satellites – or secure, at preferential prices, capacity on existing networks.

The proposals, which would end BT's and Mercury's "international duopoly", in place since the early 1980s, are contained in a consultative document which seeks comments from the telecoms industry and its customers. Among the questions it asks is whether the planned liberalisation should be limited to European routes or extended to routes beyond the EU.

The decision to abandon the duopoly has been UK government policy since 1991: only the timing and details have been in question. The government is keen to take the initiative in Europe before January 1 1998, when telecoms services will be fully liberalised across the European Union.

The Department of Trade and Industry yesterday said the benefit to UK-based customers of full liberalisation on European routes would be £130m-£140m ($200m-$215m) a year. Taking the losses suffered by UK operators from intensified competition into account, there would be an annual net benefit to the country's balance of payments of about £12m. If routes worldwide were opened up, there would be a net balance of payments deficit in telecoms of £9m.

Telecoms liberalisation was important for attracting internationally mobile companies to Britain, the department said.

BT said the proposals were no surprise, and that it welcomed the prospect of greater competition. Mercury, which seems to have most to lose because of its dependence on international business, welcomed the decision but wanted to see similar measures adopted across Europe.

See Lex

THE LEX COLUMN

Confusion in the Sky

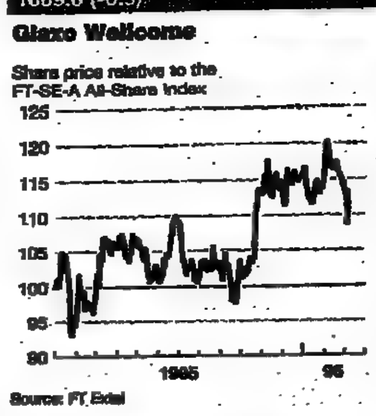
Two explanations suggest themselves for the extraordinary dispute between Mr Rupert Murdoch's BSkyB and Bertelsmann over whether they have a deal on how to develop pay-TV in Germany. One is that, by issuing a public statement that BSkyB is acquiring a 25 per cent stake in Premiere, Germany's leading pay-TV channel, Mr Murdoch is trying to bounce Bertelsmann into a deal. If so, the tactics are could backfire – especially given the political hostility throughout continental Europe to Mr Murdoch.

Another explanation is that Mr Murdoch and Bertelsmann have at least a tentative agreement and that BSkyB's statement is designed to bounce Kirch, a minority shareholder in Premiere, into their alliance. Bertelsmann wants to use Premiere as the platform for a multi-channel pay-TV service in Germany. But Kirch's threat to launch a rival multi-channel service could lead to cut-throat competition, in which neither party made money.

Kirch says it has a veto on changes in Premiere's shareholding structure. But that may not be sufficient to block an alliance between Bertelsmann and Mr Murdoch – if both parties are set on it – since Bertelsmann has management control of Premiere. Bertelsmann could presumably form a new company with Mr Murdoch to provide multi-channel TV in Germany, while still including Premiere in the package. BSkyB could even buy some sort of an indirect stake in Premiere, with such a threat enough to secure Kirch's participation. If this is the explanation for yesterday's contradictory statements – and Bertelsmann's confirmation that it has reached an alliance with BSkyB to develop pay-TV in Europe certainly suggests the two groups are cosying up to one another – Mr Murdoch will have pulled off quite a coup.

FT-SE Eurotrack 200: 1669.6 (-0.9)

Glaxo Wellcome



Source: FT Extel

International telecoms

The UK's "duopoly" on international telecommunications facilities is an anomaly that was bound to go at some stage. Nevertheless, its passing will be much regretted by British Telecommunications and Mercury Communications, which have enjoyed a lucrative business from their exclusive rights to carry international traffic to and from the UK. With the government now minded to throw open the market to competition, the pace at which international call prices are falling will probably accelerate. Mercury is more vulnerable, as international calls account for about a third of its revenue compared with 14 per cent at BT. In both cases, the proportion of profits is still higher, as international calls enjoy particularly fat margins.

The government's consultation exercise is not totally negative for BT. If it spurs other European countries to liberalise their telecoms markets more rapidly, BT would stand to benefit as the most efficient and aggressive of the large European carriers. There is also a chance that Oftel, its regulator, will make allowance for the expected reduction in its international profits when it comes to setting a new price cap for the company later this year. However, investors should not count on it. International calls are almost certain to be removed from the UK price control regime anyway. If that happens, BT will no longer be able to count the big cuts competition forces it to make in overseas rates towards the overall reduction in call prices that the regulator requires.

Glaxo Wellcome

Glaxo Wellcome is on the way to becoming the Pac-man of the international drugs industry – gobbling up rivals to fuel earnings growth. On the basis of yesterday's disappointing results, the group will need more deals like the £9bn takeover of Wellcome to keep up with the best of its peers.

Glaxo's sales rose 3 per cent during 1995, well below industry growth of 8 per cent. Even excluding ulcer drug Zantac, which has started to decline, turnover increased only 7 per cent. Despite the success of recent launches such as Imigran for migraines, Glaxo's new products will not plug the gap that is opening up as patents expire on Zantac and anti-viral drug Zovirax. The 50 per cent decline in Zantac's German sales in just six months is a taste of things to come – by July 1997, a fifth of Glaxo's sales will almost certainly be subject to competition from cheaper rivals.

This year will actually look quite good, with earnings growth of around 15 per cent fuelled by cost savings from integrating Wellcome. But on current forecasts, Glaxo's earnings growth will slow to 5 per cent a year in 1997 and 1998, while SmithKline Beecham and Zeneca will be growing at 15 per cent or more. At the moment, Glaxo's declared strategy is to sit tight until growth accelerates again, but that looks risky since it will face another batch of patent expiries early next century. The obvious alternative is to do another deal to give itself a push. With its balance sheet improving rapidly, the odds on a merger or another acquisition in the next two years are increasing.

Cadbury Schweppes

Cadbury Schweppes gave investors a lot to chew on yesterday; the overall taste was bitter. There was a £260m placing disguised as an American Depositary Receipt issue; a departing chief executive; a £30m restructuring of the French beverage operations; and a fall in ongoing profit margins from rising raw material prices, UK cola wars and a summer which discouraged sweet consumption.

Since Cadbury also demonstrated the successful integration of last year's £1.6bn acquisition of soft drinks group Dr Pepper the 3 per cent drop in Cadbury's share price may look like an ungrateful response. The deal was earnings enhancing, and Cadbury's balance sheet does not look stretched, with interest cover of 5.6 times. Dr Pepper should drive earnings in the current year, with the benefits of the 1995 restructuring. Meanwhile, margin pressure in Cadbury's other operations should ease in 1996.

On a forecast of £600m profits for the current year, the shares are trading at a 10 per cent premium to the market average price-earnings ratio. This looks expensive. Exceptional costs are coming with ever-increasing regularity, as are share issues, thereby damping earnings growth. Coca-Cola's push to increase its US market share is bound to focus on the faster-growing non-cola segment, creating a tougher environment for Dr Pepper and Seven-Up. Moreover, investors should not rely on bid hopes. US buyers could not justify buying Cadbury, because they would have to amortise a mountain of goodwill, and few Europeans could afford it.

Lex comment on House of Fraser, Page 20

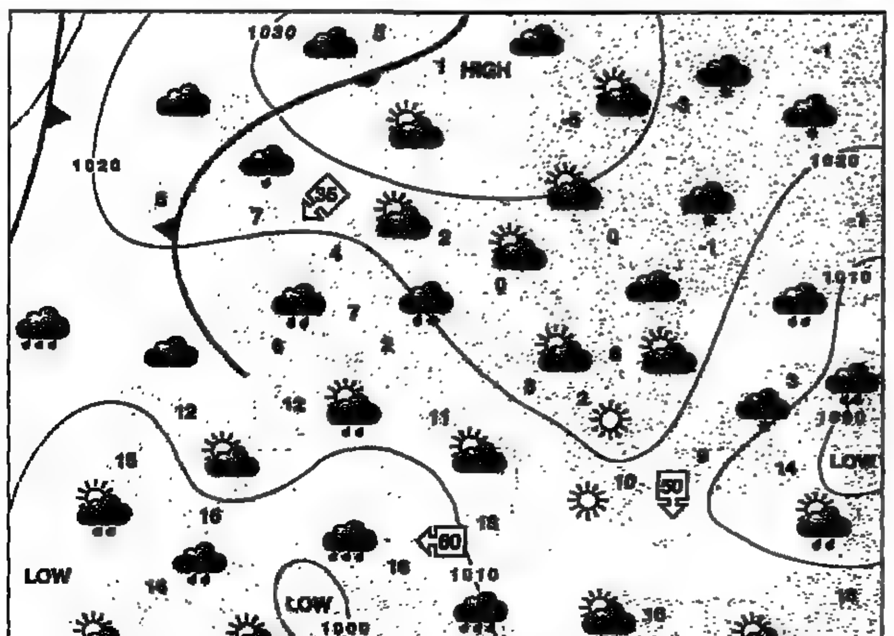
FT WEATHER GUIDE

Europe today

An active depression over the eastern Mediterranean, south of Turkey, will cause cloud and rain. Widespread snow is expected on higher ground to the north. Greece will be rather sunny and the strong northerly winds over the Greek islands will diminish. Cloud will increase over Italy and rain will spread across Sicily and Sardinia. Easterly winds will become stronger between Sicily and Tunisia, reaching 60kph. The dull conditions over the Benelux will give way to increasing easterly winds and sunny intervals. England will start the day rather cloudy and dry but drizzle will arrive in southern England and there may be sleet on higher ground. Central and eastern Europe will be mainly cloudy with scattered light snow but Poland and the Baltic states will have some sun.

Five-day forecast

Southern Italy will remain wet. Turkey will become settled. Greece will remain dry through Monday. The Benelux, Germany and central Europe will have more sun and temperatures will rise to a little above seasonal levels. The Iberian peninsula will become very unsettled during the weekend.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	fair	32
Accra	cloudy	32
Algiers	rain	14
Amsterdam	cloudy	5
Athens	sun	9
Atlanta	shower	16
B. Aires	fair	27
B'ham	cloudy	6
Bangkok	fair	35
Barcelona	cloudy	12

Beijing	sun	4
Belfast	drzzl	6
Belgrade	fair	3
Berlin	fair	4
Bermuda	fair	22
Bogota	fair	20
Bombay	sun	34
Brussels	drzzl	5
Budapest	cloudy	2
C'hagen	fair	3
Cairo	shower	20
Cape Town	fair	23

Caracas	sun	31
Cardiff	cloudy	7
Casablanca	shower	18
Chicago	fair	-6
Cologne	drzzl	5
Dakar	cloudy	27
Dallas	sun	10
Delhi	fair	30
Dubai	shower	31
Dublin	drzzl	7
Dubrovnik	fair	9
Edinburgh	fair	6

Faro	shower	17
Frankfurt	drzzl	8
Geneva	cloudy	7
Gibraltar	rain	16
Glasgow	cloudy	8
Hamburg	cloudy	5
Helsinki	fair	-2
Hong Kong	fair	24
Honolulu	fair	26
Istanbul	cloudy	4
Jakarta	cloudy	30
Jersey	drzzl	6
Karachi	sun	33
Kuwait	shower	25
L. Angeles	sun	21
Las Palmas	fair	21
Lima	fair	27
Lisbon	fair	16
London	drzzl	6
Lux.bourg	drzzl	5
Lyon	drzzl	8
Madeira	shower	17

Madrid	fair	13
Majorca	fair	14
Malta	rain	13
Manchester	cloudy	7
Manila	fair	32
Melbourne	fair	20
Mexico City	fair	24
Miami	fair	29
Milan	fair	7
Montreal	snow	-6
Moscow	snow	-2
Munich	cloudy	2
Nairobi	fair	28
Naples	fair	12
Nassau	fair	26
New York	rain	2
Nice	shower	10
Nicosia	shower	14
Oslo	fair	2
Paris	drzzl	6
Perth	sun	33
Prague	cloudy	2

Rangoon	sun	38
Reykjavik	windy	8
Rio	cloudy	31
Rome	fair	12
S. Frsco	fair	18
Seoul	shower	8
Singapore	fair	32
Stockholm	cloudy	2
Strasbourg	drzzl	7
Sydney	shower	26
Tangier	rain	15
Tel Aviv	rain	13
Tokyo	shower	13
Toronto	snow	-5
Vancouver	cloudy	11
Venice	fair	8
Vienna	cloudy	3
Warsaw	fair	-1
Washington	shower	15
Wellington	fair	17
Winnipeg	cloudy	-14
Zurich	cloudy	6

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FINANCIAL TIMES
COMPANIES & MARKETS
Thursday March 7 1996

IN BRIEF

MoDo trebles as slowdown bites

MoDo, the Swedish pulp and paper group, reported a record pre-tax profit for 1995 of SKr5.2bn ($769m), a near threefold increase over 1994. But profits in the fourth quarter fell back sharply from levels earlier in the year as price rises which had buoyed the industry petered out or went into reverse. Page 16

Spanish poll clouds Argentaria sell-off
Since Sunday's inconclusive general election, the fall in the Spanish stock market has knocked an estimated Pta20bn ($161.2m) off what the Spanish government hoped to realise from selling half its 50 per cent stake in the Argentaria banking group. Page 16

GM and Investor offer assurances on Saab

The joint owners of Saab Automobile, General Motors of the US and Sweden's Investor, the main investment vehicle of the Wallenberg industrial empire, say they remain committed to the troubled carmaker and are prepared to invest further capital in the company to underpin its future. "The partners are agreed about refinancing the company," GM's Mr Louis Hughes (left), who is also chairman of Saab Automobile, said in Sweden. Page 16

BBL chief sees merger as inevitable
Mr Daniel Cardon de Lichtbuer, chief executive of Banque Bruxelles Lambert, Belgium's fourth-largest bank, said a merger or partnership with another bank was "inevitable" – but stressed the bank was "not for sale". Page 16

Record Sidek loss surprises market
Sidek, the troubled Mexican steel and tourism conglomerate, surprised the stock market by reporting a fourth-quarter pre-tax loss of 1.9bn pesos ($250m), the largest in the company's history. Page 18

Packer steps down as PBL chairman
Mr Kerry Packer, 58, announced he was stepping down as chairman of Publishing & Broadcasting (PBL). The move came as the Australian group announced a sharp improvement in interim pre-tax profits of A$107.7m (US$81.8m). Page 19

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Asko Prf	730	+	55
Rheinmetall Prf	192	+	10
Falls			
Heidelb Zem	950	–	30
Hochtief	643	–	14
Linotype	132	–	16.5
Zanders Feinpp	117	–	10
NEW YORK ($)			
Rises			
Heilig-Meyers	16½	+	2¾
[illegible]	73¼	+	3⅞
Omnicare	52¼	+	2½
Witco	36	+	2¼
Falls			
Potash	70¾	–	3¾
Three Five Sys	13¾	–	5¼
LONDON (Pence)			
Rises			
BWD Sec	96	+	10
Blenheim	272	+	26
Cape	160	+	16
MSM	36	+	6
Raine	[illegible]	+	4
Falls			
Faber Prest	415	–	138
TORONTO (C$)			
Rises			
Guyanor B	8⅝	+	⅝
Norwall	7⅝	+	⅞
Saltkey Silver	34	+	2
Sth Weln Gold	14	+	1⅛
Falls			
Spectral Diag	8⅝	–	¾
Tezcorel AT	12½	–	⅞
PARIS (FFr)			
Rises			
Eridania B-Say	884	+	34
Geophysique	302	+	13.7
Seb SA	730	+	20
Sommer-Allibert	1680	+	62
Falls			
Cred Lyon (CI)	227	–	10
SILIC	750	–	20
TOKYO (Yen)			
Rises			
Nachi Fujikoshi	469	+	20
Nissan Diesel	599	+	44
Tokyo Car	701	+	36
Toyo Seikan	3480	+	150
Falls			
Brother Ind	570	–	24
Kokuyo	2380	–	140
HONG KONG (HK$)			
Rises			
JCG Hldgs	8.45	+	0.4
[illegible]	3.25	+	0.175
Siu-Fung	1.55	+	0.12
YGM Trading	7	+	0.5
Falls			
Hasco	21.5	–	1
Sime Darby HK	7.8	–	0.4
BANGKOK (Baht)			
Rises			
Loxley Publ	428	+	38
Rojana	170	+	13
Thai Ins	77	+	7
Thai Stanley	117	+	10
Falls			
Seafresh Inds	85.5	–	8.5
Sri Charoen	65	–	5

New York and Toronto prices at 12:30.

Glaxo may give up US patent fight

By Daniel Green in London

Glaxo Wellcome, the world's largest pharmaceuticals company by sales, may be close to abandoning its fight to keep US patent protection for Zantac, its £2.2bn-a-year ulcer drug, to 2002.

Sir Richard Sykes, chief executive, said competition from generic, non-branded, rivals was most likely to start from July 1997. His comments came with the company's annual results which showed that Zantac sales in Germany had fallen by half since the patent there expired in July 1995. Fifteen rival products had been launched there since patent expiry.

Glaxo Wellcome shares fell 44p to 876p.

The German performance contributed to a 4 per cent fall in Zantac sales to £2.26bn ($3.5bn), the first such decline since the drug was launched in the early 1980s. Sir Richard said that the pace of decline was likely to increase.

Zantac's global market share fell from 34 per cent in 1994 to 31 per cent last year, largely as a result of competition from Losec, a rival made by Sweden's Astra.

Sales of the company's second biggest drug, the anti-virus drug Zovirax fell 1 per cent to £856m.

There was rapid growth in sales of the company's asthma drugs, up 20 per cent, and nervous system drug, up 31 per cent.

Pre-tax profits for 1995 rose to £2.51bn, compared with £1.93bn in 1994 before Glaxo's successful bid for Wellcome a year ago.

Earnings per share with Wellcome included from March 16 1995, were 50.3p, against 43.6p for the previous year.

The final dividend is 15p, making the dividend on an annualised basis 30p, an increase of 11 per cent.

Three sets of one-off charges hit profit margins, said Mr John Coombe, finance director. They were the cost of the Zantac patents settlement with Canadian company Genpharm; a provision for anti-trust action against a group of pharmaceutical companies brought by US pharmacies; and a clawback of profits by the French government.

He said that, without these charges, the company's trading profit margin would have been 1 percentage point better than the 33.8 per cent reported for the year. Glaxo Wellcome said sales of its anti-viral drugs, including Zovirax, were flat at £1.1bn.

Antibiotic sales were £963m or 12 per cent of total turnover. Cancer drugs made up 5 per cent of total sales with sales of £451m.

Mr Coombe said the group's original target of losing 7,500 jobs from the integration of Wellcome was still in place but that 6,000 had gone by December 31 1995, more than envisaged.

Lex, Page 14

Investcorp primes Saks for public offering

By Richard Tomkins in New York

Investcorp, the Bahrain-based investment group that floated the Gucci luxury goods company on the New York Stock Exchange last year, is believed to be preparing another high-profile public offering – shares in Saks Fifth Avenue, one of the best-known names in US retailing.

Saks, which has 45 department stores and 19 other outlets in the US, is Investcorp's biggest holding. Detailed financial data are not available, but Saks said it had revenues of $1.4bn in the year to January 1995.

Investcorp acquired Saks from BAT Industries of the UK for $1.6bn in 1990. BAT sold it as part of a restructuring prompted by a hostile – and ultimately unsuccessful – bid from Sir James Goldsmith, the Anglo-French financier.

At the time, the US department store sector was depressed, and several chains went bankrupt. Those that survived the shake-out rejuvenated themselves, and the sector has recently been one of the few bright spots in a poor US retailing climate.

In a corporate review published last year, Saks said earnings before interest, tax, depreciation and amortisation had more than doubled since 1990. Earnings in the year to January 1995 were 20 per cent up on the previous year.

Saks is one of the most up-market US department store groups. It appeals to the fashion-conscious, stocking wide ranges of expensive designer merchandise.

The company's department stores also cater for the less-than-super-rich by stocking own-label goods at lower prices.

In addition, Saks has 19 stores trading under the Off 5th name, which act as clearing houses for end-of-season merchandise. It also runs a catalogue operation.

Investcorp's decision to float the company appears to have been determined by recent highs in US stock prices and by buoyant demand for luxury merchandise. The rich are getting richer in the US, and their increased spending power has led to heavy demand for designer goods.

This phenomenon was reflected last October when Investcorp brought Gucci to the market. The public offering was heavily oversubscribed, and the shares, offered at $22 each, have since soared in value. In early trading yesterday they were up $1 at $46⅞.

Investcorp is known for taking medium-term positions in US and European companies with recovery prospects, particularly those with famous brand names.

Further consolidation will increase pressure on rivals to do deals

Sandoz poised to break temporary merger famine

It could not last. After 2½ years of mergers and acquisitions in the deal-hungry drugs industry, 1996 had begun with an eerie famine.

The likely merger of Sandoz with one of its rivals will be only the latest earthquake to shake what was, until the 1990s, a sector characterised by conservative management of large rises in sales and profits. That changed in 1993 when the biggest US drugs company, Merck, shocked its staid rivals by spending $6bn on a drug distributor, Medco Containment Services.

After a pause to digest the implications of that acquisition, the sector threw itself into a frenzy of bids and deals.

Research by stockbrokers James Capel suggests there have been more than $80bn-worth of deals in the sector since Merck bought Medco, including 16 deals worth $1bn or more.

The main cause is simple. While in the 1980s drugs prices rose faster than inflation, the 1990s has seen buyers of medicines drive harder bargains. Global drug sales growth slowed to 1 per cent in 1993. Pharmaceutical companies have been forced to find ways of cutting costs – one obvious method is through takeovers.

However, once the initial merger wave passed, it became clear that further consolidation would require a different form of financing than the first deals, which tended to involve a large measure of debt and were sometimes hostile offers.

By the spring of 1995, most of the industry's middle-sized companies had been taken over – only one or two independent companies have a market capitalisation between $4bn and $12bn.

That put acquisitive companies in a quandary: buying companies big enough to improve market share significantly was becoming very costly – and prohibitively so if debt financing was used. Buying smaller companies was possible, but would not add significantly to the buyer's market share.

Glaxo Wellcome yesterday revealed that net debt at the end of 1995 was £3.2bn ($5bn) – much of it due to Glaxo's £9bn takeover of Wellcome – compared with net cash a year earlier of £2.2bn. The company said it could take until 1999 to pay off that debt.

The answer for companies wanting to do deals with large rivals is to go for agreed mergers and offer an exchange of shares, rather than cash.

Last year, Mr Alex Krauer, chairman of Switzerland's Ciba and Mr William Steere, his opposite number at Pfizer, independently said the future was not going to be in hostile bids.

Mr Krauer said: "The best companies are prohibitively expensive to buy. We have a 2-2.5 per cent market share now. If we bought what we could afford, we might get to 3 per cent. A merger is the way to get to 5 per cent."

In 1994, the sector threw itself into a frenzy of bids and deals

Mr Steere agreed: "If we were to buy Upjohn [a mid-sized US company], it wouldn't make much difference. But a big merger could really change our market position."

In fact, it was Upjohn which announced a deal – a friendly, share swap merger with Sweden's Pharmacia. That deal transformed the prospects for both companies in the eyes of investors. Upjohn had been seen as one of the least promising of US pharmaceuticals companies. Pharmacia was the product of a series of mergers in Sweden and between Swedish and Italian companies.

Sandoz has not been at the top of merchant bankers' lists of deal-making companies. Until this year it had been considered a conservative organisation that clung to the old industry adage that if it was "not invented here" it did not deserve consideration.

So while larger neighbour Roche broke moulds by buying into Genentech, the San Francisco biotechnology company, and spending $5.3bn on Syntex, a Californian drugs company, Sandoz bided its time.

A change in attitude came when the company appointed a new chief executive to its pharmaceuticals division, Mr Daniel Vasella, a dynamic Americanised Swiss.

Investors realised the impact Mr Vasella was having when Sandoz demerged its chemicals operation Clariant last year.

The creation of a new company will reverberate across the industry.

Sir Richard Sykes, Glaxo Wellcome's chief executive, yesterday reaffirmed that while the company did not have any acquisition plans, it would reconsider if its position as the world's number one was threatened.

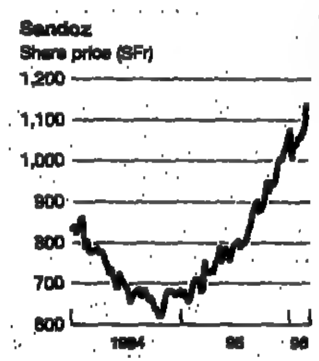
Perhaps more importantly, it will increase the pressure to do deals on Roche, Sandoz's neighbour in Basle, which is sliding down the world rankings. Industry leaders are in no doubt that there will be further mergers – and Sandoz will not be the only Swiss company involved.

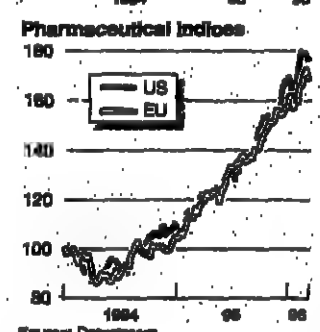
Our Financial Staff

BIG LEAGUE

1994 Ranking by sales	1994 Company	1994 Market share %	1995 Rank	1995 Company	1995 Market share %
1	Glaxo	3.6	1	Glaxo Wellcome	4.7
2	Merck	3.4	2=	Merck	3.5
3	BMS	3.2	2=	Hoechst MarionR	3.5
4	Roche	2.8	4	BMS	3.1
5=	J&J	2.7	5	AHP	3.0
5=	Pfizer	2.7	6=	Pfizer	2.9
7=	SB	2.5	6=	J&J	2.9
7=	Ciba	2.5	8	Roche	2.8
9=	Hoechst	2.3	9=	SB	2.5
9=	AHP	2.3	9=	Ciba	2.5
Top 10		28			31.2
11	Bayer	2.2	11	Rhône-Poulenc**	2.2
12	Lilly	2.1	12	Bayer	2.1
13	Sandoz	1.9	13	Lilly	2.0
14=	Rhône-Poulenc**	1.8	14=	Sandoz	1.9
14=	Schering-P	1.8	14=	Schering-Plough	1.9
16	Abbott	1.7	16=	Astra	1.8
17	Astra	1.6	16=	Abbott	1.8
18=	Takeda	1.5	18	Pharmacia&Upjohn	1.7
18=	Sankyo	1.5	19=	Sankyo	1.6
20	Boehringer Ing	1.5	19=	Takeda	1.6
Top 20		45.5			[illegible]
Total sales of prescription drugs		[illegible]			$205bn*

*Provisional ** Including Rhône-Poulenc Rorer





Source: Datastream

GrandMet faces loss of US vodka deal

By Roderick Oram, Consumer Industries Editor

Grand Metropolitan is in danger of losing its lucrative rights to distribute Finlandia vodka in the US with the outcome dependent on urgent negotiations between the UK food and drinks group and Alko-Yhtiöt, the Finnish state-owned distiller.

If GrandMet lost the brand and US sales of about 500,000 cases a year, it would be a re-run on a smaller scale of its damaging loss of distribution rights to Absolut, the Swedish vodka, two years ago.

In a second looming threat to GrandMet's vodka business, Mr Boris Smirnov, who is challenging GrandMet's ownership of the Smirnoff brand, will shortly announce a foreign partner to help produce and distribute Smirnoff vodka in Russia.

GrandMet has also suffered further court setbacks in Russia, where it is trying to overturn rulings that Mr Smirnov is the brand's legitimate owner. Courts have barred GrandMet from importing its own Smirnoff.

Mr Smirnov's partner is thought to be a western trading company with near-national distribution in Russia of an imported western beer. The partner will commit resources to make and distribute more than 5m cases of "original" Smirnoff over the next few years.

Alko-Yhtiöt is thought to be keen to rationalise the global marketing of its Finlandia vodka, which outside the US is distributed by Guinness and Allied Domecq. Both would be keen to take a wider role with Finlandia because they lack credible vodka brands.

Finlandia's global sales were 1.7m cases last year, up 17 per cent on the year before, according to Drinks Bulletin International. Almost a third of the sales were through GrandMet in the US market, where it is the third largest imported vodka.

"We are in discussions but we don't see any reason for the Finns to terminate a long-term agreement that runs to 2003," IDV, GrandMet's drinks arm, said yesterday. It added that Finlandia's contribution to group profits was only a few million pounds, but analysts believe it is higher.

The Finnish distiller had the right to terminate the agreement, however, if it gave the requisite notice, drinks executives said. It had already served notice, said one.

CompuServe talks to AT&T about Internet alliance

By Louise Kehoe in San Francisco

CompuServe, one of the leading computer online services, is in talks with AT&T about a possible Internet alliance.

The talks are aimed at creating links between CompuServe and AT&T's newly announced Internet access service.

AT&T declined to confirm or deny reports that it is also in talks with America Online, the largest online information service, and Prodigy, number three in the online market.

The three offer a range of proprietary information and communications features, as well as providing access to the global Internet.

The computer online services are, however, facing growing competition from companies offering direct access to the Internet. In particular, AT&T's launch of WorldNet, an Internet access service that will provide up to five hours of free service to AT&T telephone customers for the first 12 months, has been seen as a challenge to the online services.

It now appears, however, that AT&T may see a role for the proprietary online services, which have a total of 11m subscribers, as it attempts to create a mass market for Internet connections.

The online services appeal, in particular, to home computer users for whom direct access to the vast Internet can be daunting. At the introduction of WorldNet, last week, AT&T executives stressed that getting on to the Internet must be an easy process, even for computer novices, if it is to become a mainstream market.

The talks between AT&T and the online services come at a critical time for CompuServe and Prodigy.

H&R Block, CompuServe's parent company, recently announced it would spin off the online services business with a public stock offering planned for April. CompuServe had 4.3m subscribers at the end of January, an increase of almost 12 per cent over the previous three months.

Sears Roebuck also announced last month that it is planning to sell its 50 per cent stake in Prodigy which it owns jointly with International Business Machines.

The turmoil in the computer online information services industry continued this week with Apple Computer's announcement that it would close down its service, called eWorld, at the end of the month.

EUROPEAN NEWS DIGEST

State seeks local backing for Fokker

The Dutch government yesterday held high-level talks with the Netherlands' financial community to canvas support for a possible rescue of Fokker, the ailing aircraft manufacturer racing against the clock to come up with a workable survival plan. Mr Hans Wijers, economics affairs minister, described his talks with "key figures of the Netherlands financial sector" as useful, but declined to give details.

Participants included representatives from the country's biggest banks, public-sector pension funds and corporate pension funds. The aim was to see whether the private sector was prepared to put up money towards keeping Fokker afloat. Fokker must find an answer to its financial future in the next week because bridging financing provided by the Dutch state runs out in mid-March. *Ronald van de Krol, The Hague*

Continental doubles profits

Continental, the German tyre maker, more than doubled net profits last year. The world's fourth-largest tyre maker, whose operations include General Tire of the US, reported net profits of DM155m ($105m), compared with DM71m in 1994. Pre-tax profit also more than doubled, to DM195m from DM92m, on sales only 3.8 per cent higher at DM10.3bn.

Continental said the improvement came mainly from cost-cutting, rather the price increases the industry managed to squeeze from vehicle makers, and in the replacement market. These mainly compensated for one of the sharpest increases in raw materials costs the industry has experienced. Nevertheless, the overall effect was sharply higher profits in the car tyres division, where sales rose 4.8 per cent to DM4.08bn. *John Griffiths*

Incentive completes takeover

Incentive, one of the Wallenberg empire's main industrial companies, yesterday effectively completed its takeover of Gambro, the Swedish medical technology group set to be the centrepiece of a remodelled Incentive. It said it had received acceptances for its offer, which valued Gambro at more than SKr18bn ($2.78bn), from shareholders holding 99.4 per cent of the target company's capital and 99.7 per cent of its voting stock. Incentive bid SKr10.3bn in January for the 58 per cent of Gambro its did not already own. *Hugh Carnegy, Stockholm*

Extra provisions hit BTA

Shares in Banco Totta e Açores, Portugal's third-biggest commercial bank, fell almost 2 per cent yesterday, to Es2,775, after the group reported a 26.6 per cent slide in net profit to Es17.2bn ($112.2m) in 1995 from Es23.4bn in 1994. Brokers said the shares fell by more than 3 per cent, from Tuesday's closing price of Es2,831, before support buying from within the Champalimaud group that controls the bank led to a slight recovery.

BTA blamed the fall in profit mainly on a Es12.2bn increase in provisions, as well as a Es3.5bn drop in security trading income, higher taxes and a Es1.9bn contribution to the central bank's deposit guarantee fund. It had decided to meet new provisioning obligations in full in 1995, rather than take up an option to fulfil the requirements over three years. This had cut profits by almost Es5bn but would make the bank more competitive in 1996, the group said. *Peter Wise, Lisbon*

BT withdraws from TE race

Plans to develop an all-Ireland telephone network have been dealt a blow with British Telecommunication's decision to pull out of the race for a 35 per cent stake in Telecom Eireann (TE), the Irish state-owned phone company. The withdrawal of BT leaves the field to Bell Atlantic of the US, KPN-Telia, a Danish-Swedish consortium, and TeleDanmark. TE, which is being advised by Morgan Stanley, is aiming to raise up to I£500m ($817.8m) from the strategic sale. Cable & Wireless of the UK and AT&T, the US operator, have already withdrawn. *John Murray Brown, Belfast*

German aerospace sales down

The German Aerospace Industry Association estimated 1995 sales in the sector reached DM16bn, down 40 per cent from 1991, according to Daimler-Benz Aerospace board member Mr Werner Heinzmann. He said: "We must quickly carry out the consolidation of the European aerospace industries. Time is against us." *AFX News, Hannover*

■ German airline Deutsche Lufthansa said it posted a profit of around DM500m in 1995 on estimated sales of around DM20bn. *Reuter, Frankfurt*

AEG formally dissolved after 112 years

By Wolfgang Münchau in Berlin

Shareholders in AEG, the German electrical group, yesterday put an end to 112 years of corporate history with a formal decision to dissolve the company and put the remaining fragments into Daimler-Benz, its parent group.

The decision ends more than two decades of commercial and financial difficulties for AEG. Yesterday's shareholders meeting was a legal requirement, even though Daimler-Benz owns 93 per cent and takes virtually all strategic decisions by itself.

Several minority shareholders yesterday paid an emotional tribute to the company, whose name is synonymous with Germany's industrial rise in the late 19th century. Others levied angry accusations, and at least one minority shareholder threatened legal action.

Given Daimler-Benz's unassailable majority, the outcome of yesterday's meeting was never in doubt. A motion to delay the meeting because of a supposed lack of financial information was defeated by 99.7 per cent.

One shareholder's representative said AEG's dissolution, commercially inevitable as it may be, "is the end of a dream for all of us".

Speaking directly to Mr Ernst Stöckl, the outgoing chairman of AEG, he said: "When you took over, did you really have what it took to run a large electric company, and to run it responsibly? Did Daimler-Benz have what it took to take over and run such a company?"

Yesterday's vote was technically not about the "dissolution" of the company, but rather about the transfer of AEG into a holding company. There will also be a few related changes in the company's statutes, such as the abandonment of Berlin as one of its two legal headquarters.

Mr Dieter Kaufmann, chairman of the Convention for the Protection of Small Shareholders, expressed concern about a share swap offer Daimler-Benz is due to announce next week. It is expected that the parent will stay close to the historic "exchange rate" between the two stocks – five AEG shares against one of Daimler-Benz.

Mr Jürgen Schrempp, chairman of Daimler-Benz and of AEG's supervisory board, chaired yesterday's meeting and listened silently to the savage attacks against him and his colleagues.

Election result clouds Argentaria sell-off

By Tom Burns in Madrid

Selling a state-owned asset when there is no government is a tricky proposition: this is what the Spanish state is learning as it tries to sell a 25 per cent stake in the banking group Argentaria.

Since Sunday's inconclusive general election, the fall in the Spanish stock market had by yesterday knocked an estimated Pta20bn ($161.2m) off what the Spanish government hoped to realise from selling the Argentaria stake. It currently owns 50 per cent.

Although Argentaria has reported strong demand for its shares among small investors since the start of the retail tranche offer period, some analysts are now doubtful about the response from institutions when the book-building period for the international tranche starts next week.

The domestic market steadied somewhat yesterday, but falls on Monday and Tuesday virtually wiped out the advance registered by Madrid's general index since the beginning of the year. Argentaria's share price stood at Pta5,540 at the close on Friday, ahead of the elections; it tumbled more than 6 per cent to close at Pta5,200 on Tuesday before recovering yesterday to Pta5,330.

On the back of a strong market rally, the disposal of 25 per cent of Argentaria was already worth Pta179.9bn at Friday's market prices – but its value had fallen to Pta159.6 at Tuesday's close. In 1993, the disposal of 50 per cent of the government-owned equity in the banking group in two global offerings realised Pta292bn.

With forecasts varying between continued depression on Madrid's *Bolsa* and a renewed sell-off, the main question is whether the sudden cheapness of Argentaria's shares will weigh more with institutions than the politically-fuelled volatility of the Spanish market.

The maximum price for the Argentaria disposal is to be set by global co-ordinator Morgan Stanley of the US on March 15; the final price, which will include a 4 per cent discount for small investors, will be fixed on March 25.

The narrow election win by the centre-right Popular Party (PP) in Sunday's polls – which left it well short of an overall majority in parliament – has ushered in a period of instability that, in the view of the markets, recalls that of Italy. PP leader Mr José María Aznar is searching for parliamentary allies, and it might not be clear for weeks whether he will be able to form a government.

This political stalemate is likely to be uppermost in the minds of institutions attending the Argentaria roadshows that start on Monday.

BBL sees need for merger despite 15% jump in profits

By Neil Buckley in Brussels

The chief executive of Belgium's fourth-largest bank, Banque Bruxelles Lambert, said yesterday a merger or partnership with another bank was "inevitable" within the next few years – but stressed the bank was "not for sale" – as he announced a 15 per cent increase in net profits for 1995.

Net profit jumped from BFr7.75bn to BFr8.94bn ($294.1m), well above analysts' forecasts of just over BFr8.6bn, thanks to an increase in both interest and non-interest income and tight control of operating costs.

Mr Daniel Cardon de Lichtbuer, chief executive, said he agreed with the "consensus among eminent persons" – recently expressed by Mr Philippe Maystadt, Belgium's finance minister, and Mr Elio Di Rupo, economics minister – that there were "too many medium-sized banks in Belgium".

He repeated his opinion, first made public last summer, that BBL would link up with another bank in the short, medium or long term. But he emphasised such a link would be a "partnership of equals", or a takeover by BBL of another bank.

There has been intense speculation in Belgium in recent months about a merger or alliance between BBL and either Crédit Communal de Belgique, the state-owned bank which is Belgium's second-largest in terms of assets, or Générale de Banque, the largest.

Mr Cardon's comments came the day after Mr Ferdinand Chaffart, Générale de Banque's chief executive, played down the need for Belgian banks to unite to form a Belgian "mega-bank" capable of competing in the international market, especially after introduction of a single European currency. Mr Chaffart said his bank's philosophy was still to be a stand-alone company.

BBL's net interest income increased 4.8 per cent to BFr49.2bn, while non-interest income rose 2.2 per cent to BFr25.7bn, producing total gross income of BFr74.9bn.

Operating costs fell from BFr47.4bn to BFr47.2bn and the cost/income ratio was cut from 65.7 per cent to 62.9 per cent – the lowest for five years.

Depreciation, writedowns and provisions increased 3.2 per cent to BFr13.1bn. Consolidated total assets grew 24.5 per cent to BFr3,225bn, and the total capital ratio rose from 10.72 per cent to 11 per cent.

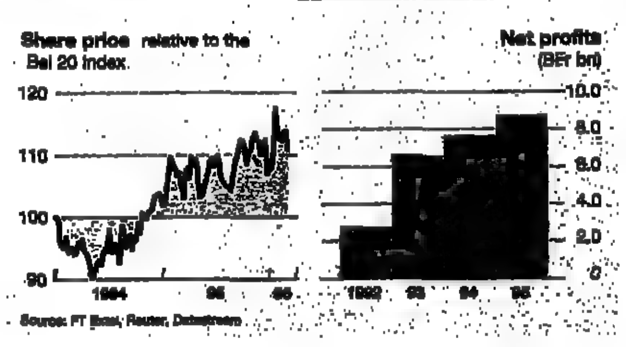
Earnings per share expanded from BFr409.8 to BFr472.6, and the dividend goes up from BFr160 to BFr175.

COMPANY PROFILE:

BBL Banque Bruxelles Lambert

Daniel Cardon
Chief executive

Market capitalisation	$8.7bn
Main listing	Brussels
Historic P/E	14.07
Gross yield	2.76%
Earnings per share	BFr 472.6
Current share price	BFr 5,810



Source: FT Extel, Reuter, Datastream

MoDo soars but warns of further pulp price falls

By Hugh Carnegy in Stockholm

A crash in wood pulp prices which has hit the forestry industry in recent months is set to continue, the Swedish pulp and paper group MoDo warned yesterday.

MoDo reported a record pre-tax profit for 1995 of SKr5.2bn ($761.6m), a near three-fold increase over 1994 when it returned a surplus of SKr1.8bn. But profits in the fourth quarter fell back sharply from levels earlier in the year as price rises which had buoyed the industry petered out or went into reverse.

The result was just under market expectations and MoDo's most-traded B shares slipped back on the news, closing down SKr1 at SKr335. The forestry sector index was one of the main losers on the Stockholm bourse, falling 0.66 per cent.

The biggest price turnround has been in wood pulp, the basic raw material for paper products. In the past week, North American producers have slashed prices to $600 a tonne for the benchmark pulp product, called northern bleached softwood kraft. Prices peaked as recently as last October at just under $1,000 a tonne.

"Pulp prices can very well fall further because inventories are so high," said Mr Bengt Pettersson, MoDo's chief executive. "At some stage there will be a turning point, but there has first to be a fall in inventories." He said he believed inventories had grown further in February.

MoDo, a net seller of pulp, said it was ready to slow production in an effort to help reverse the inventory build-up.

Mr Pettersson said last year's price rises were the chief reason for the surge in full-year profits. Group sales rose from SKr20.2bn to SKr22.3bn. But the picture changed dramatically in the fourth quarter, when sales slipped from SKr5.8bn in the last quarter of 1994 to SKr5bn a year later as demand sagged in all almost areas except printing papers.

GM and Investor offer assurances on Saab refinancing

By Hugh Carnegy

General Motors and Sweden's Investor, the joint owners of Saab Automobile, have said they remain committed to the troubled carmaker and are prepared to invest further capital in the company to underpin its future.

"The partners are agreed about refinancing the company," GM's Mr Louis Hughes, who is also chairman of Saab Automobile, said in Sweden yesterday. Mr Claes Dahlbäck, chief executive of Investor, the main investment vehicle of the Wallenberg industrial empire, reiterated that the two owners, which each hold 50 per cent, were committed to Saab's survival and development despite its weak performance since 1989, when GM took over management control.

"We are ready to put in additional capital if we see there will be a sufficient return on the investment," Mr Dahlbäck said. Late last year, when Saab slipped into the red in the first nine months, Investor openly expressed concern about the company's ability to make sustainable profits, prompting speculation that the Wallenbergs might want to pull out.

No figure for Saab's capital needs has yet been given, and Investor said the Saab board had yet to make a formal request for funds – or guarantees to back borrowing. But the carmaker has made no secret of its inability to fund from its own resources the launch of a new model currently under development and the cost of a new paint plant at its main production facility in Sweden.

Together, GM and the Wallenbergs have sunk more than SKr8bn ($1.2bn) into Saab Automobile since 1989. The company ran up accumulated losses of SKr11bn between 1989 and 1993, before returning to the black in 1994. It managed to return a full-year 1995 profit of SKr148m, despite the loss in the first nine months. But with sales of SKr20bn, the return was negligible.

Based on just two models – the luxury 9000 and mid-sized 900 – Saab has failed to achieve the volumes and premium prices to make it profitable, despite radical cuts in production costs stemming in part from the benefits of access to GM's component stream. Its management says it needs more time to develop new models to establish a firm, long-term niche in the premium and luxury markets it was designed to fill for GM.

Haig Simonian reports on the second day of the 66th Geneva Motor Show

GM lifts lid on transatlantic co-operation plan

General Motors has given a glimpse of its secret plans to co-ordinate its international engineering resources by confirming that US and European specialists are developing a new Saturn sedan for the highly-successful US brand.

The new car, which has yet to be approved, will be bigger than Saturn's existing saloon, station wagon and coupé, and will be based on the new Opel/Vauxhall Vectra model launched in Europe late last year.

Mr Louis Hughes, head of GM's international operations, said that "the concept [for a new model] is advanced, but has to be tested".

Detailed engineering and design on the new car, which is still about two years from production, is being carried out by a large team of US and European engineers at Opel's development centre in Germany, where the Vectra was engineered. The project, which is to meet US demand for a bigger Saturn model, is the most ambitious attempt by GM to build "alliances" between engineering teams on both sides of the Atlantic.

Parallel development of new cars, which may eventually be produced at various locations, is one of the holy grails of the world motor industry. Big carmakers are adopting a variety of techniques to reap the benefits of "globalisation" by pooling their internal resources and maximising economies of scale.

Mr Hughes said a final decision on the new car would depend on detailed market research and costings. However, analysts believe it is likely to proceed because of the demand for Saturn products. Also, GM is keen to propagate the Saturn division's innovative working practices at other plants, meaning that the new project will almost certainly be built at an established GM factory rather than at Saturn's plant in Tennessee.

The latest project follows earlier attempts by GM to foster closer co-operation between engineers in Europe and the US. The new Cadillac Catera, to go on sale in the US shortly, is a lightly revised version of Opel's top-range Omega saloon. In the case of the Opel Sintra, a multi-purpose "people carrier", a big Opel team has been sent to GM's Detroit technical centre to inject a European flavour into a US-originated vehicle for European markets. The Sintra will go on sale in Germany in November, while Chevrolet and Pontiac-branded versions will soon be displayed at the New York motor show for sale later this year.

GM's efforts to link engineering and product development in the US and Europe are part of a wider strategy to expand internationally without squandering resources.

"Within the next 10 years, we want to be selling half of our vehicles outside North America,". said Mr Hughes. "Just 10 years ago, only one GM vehicle in five was sold outside north America", compared with more than one third last year.

The company plans to spend about $2.5bn a year on its international operations over the next five years to boost its presence. More than 70 per cent of the total will go on Europe.

Mr Hughes said GM expected to decide by the end of June on the location of its planned new south-east Asian car plant. Financial incentives will largely decide whether the $300m–400m facility, which is expected to build up to 150,000 small to mid-sized cars a year, is located in Thailand or the Philippines.

The company has also drawn up a short-list of sites for a planned $340m factory to build 70,000 cars a year in Poland.

Mazda sticks with break-even forecast

Mazda Motor, the Japanese carmaker hit by heavy losses from over-expansion, has not adjusted its forecast for break-even in the current financial year, despite the more favourable value of the yen against the dollar.

Mr Yoshihiro Wada, president, admitted the rise in the dollar against the yen had eased the pressure on Mazda in the current financial year to March 31. However, he said: "I don't think we will be making a much better figure. Break even is realistic."

Mr Wada declined to give a profits outlook for 1996-97, as the company was still working on its forecasts. However, Mazda had two years ago been "at the bottom of the lake. We don't want to go back there".

The company expected to cut costs by $1.1bn this year, after reducing them by nearly $2.4bn in the past 2½ years.

The savings had been achieved by rethinking its product development process, streamlining personnel and increasing operating efficiencies, said Mr Wada.

Part of the impact would be seen in a fall in the group's net debt, which should decline from Y520bn to about Y480bn ($4.57bn) at the year-end.

After almost three years of difficulties, during which Mazda had tried to eliminate losses by reducing capacity, slimming down its model range and streamlining its dealer network, Mr Wada hinted it was coming out of the woods.

AMERICAS NEWS DIGEST

Grupo Modelo slips despite higher sales

Grupo Modelo, Mexico's biggest brewer, saw net profits drop 3.3 per cent to 1.3bn pesos ($171m) in 1995, despite a doubling of exports which helped total sales rise 1.6 per cent to 9.8bn pesos. Price increases on the domestic side failed to keep pace with inflation, pushing operating profit down 9.4 per cent to 1.72bn pesos.

For the year, the company sold 22.2m hectolitres of beer on the domestic market, a 4 per cent decline on the previous year, and exported 2.9m hectolitres, a 39 per cent increase. But because of the price lag, domestic sales fell by 8.5 per cent, while the peso devaluation helped export sales shoot up 102 per cent.

Sales for the fourth quarter fell 5.2 per cent to 2.4bn pesos, while operating income dropped 78 per cent to 116m pesos. Net income of 118m pesos represented a 77 per cent fall on 1994.

Daniel Dombey, Mexico City

Industrias Peñoles surges

Industrias Peñoles, the Mexican mining group, announced record net profits of 1.01bn pesos ($133m) in 1995, an astonishing 3,405 per cent increase over its 1994 results. The company, which refines zinc, lead and precious metals, reported a 54 per cent increase in sales to 5.75bn pesos in 1995. Profits before tax and financial costs improved nearly four-fold to 1.56bn pesos. The company's market capitalisation has doubled in dollar terms over the past year to about $1.9bn.

Peñoles sailed through last year's financial turmoil because almost all its sales and refining tolls are priced in dollars, and because its conservatively-managed debt did not become a burden when financial costs in Mexico sky-rocketed last year. The company owes about $290m, while it has $380m in cash reserves.

Leslie Crawford, Mexico City

Televisa cuts costs

Televisa, the Mexican media group, announced a 15 per cent rise in net profit for 1995, to 942.5m pesos ($124.3m), on sales down 9 per cent to 6.8bn pesos. Over the year the group implemented a cost-cutting programme expected to save at least 500m pesos a year. Staff numbers fell 12 per cent between mid-1994 and the end of 1995, the company said, to total about 20,700 at the year-end, and Televisa took a 228m peso charge for severance payments and termination charges.

Televisa said operating cash flow in 1995 fell 52 per cent to 1bn pesos. Total debt stood at 14.94bn pesos, down from 16.32bn pesos the year before. The cost of financing fell 81 per cent to 144m pesos, while the cost of sales increased 5.4 per cent to 5.13bn pesos in 1995. Earnings per share in 1995 were 1.02 pesos, against 0.89 pesos in 1994.

AP-DJ, Reuter, Mexico City

Souza Cruz sells Aracruz stake

Brazilian tobacco giant Souza Cruz, a subsidiary of BAT Industries, is to sell its remaining shareholding in cellulose maker Aracruz for an estimated $230m. The sale will conclude a sell-off of Souza Cruz's non-tobacco interests, as the company concentrates attention on its core activities.

Souza Cruz sold 21 per cent of Aracruz's preferential shares last year for R$214m (US$218m). Mr Flávio de Andrade, president, said the forthcoming sale of 28 per cent of voting stock would raise "no less" than that amount. The company said foreign and Brazilian investors had shown interest in the offer, although it made no prediction of when the sale will be completed. The money raised will be used in an investment plan of $650m over the next five years.

Jonathan Wheatley, Sao Paulo

Sun Intl in $265m cash raising

Sun International Hotels, the leisure and gaming group, yesterday said it had raised $265m in the US to finance the expansion of its gambling activities in North America and the Bahamas. In what it claimed was the largest ever public equity offering by a gaming company, the group said heavy demand for its shares enabled it to lift the placing price from $38.50 to $35 a share.

Mr Sol Kerzner, chairman and chief executive, said it had raised $110m more than originally anticipated.

Proceeds from the placing will be used to pay down the group's $105m borrowings and underpin the $285m construction costs of a new a casino and entertainment complex in Connecticut – a joint venture with the Mohegans, a tribe of native American Indians. Sun International has also secured a further $200m lending facility to help finance a $275m expansion of Atlantis, its casino and holiday resort in the Bahamas.

Tim Burt

Sidek slides back into red in fourth term

By Leslie Crawford in Mexico City

Sidek, the troubled Mexican steel and tourism conglomerate, shocked the stock market yesterday by reporting a fourth-quarter pre-tax loss of 1.9bn pesos ($250m), the largest in the company's history.

The unexpected results wiped out a modest 206m peso profit accumulated in the first three quarters of the year, and almost doubled the 1bn peso loss in 1994. Situr, the tourism and property development subsidiary, reported a net loss of 1.98bn pesos in the fourth quarter of 1995.

Sidek executives were not available to explain the reversal. However, market analysts speculated that auditors may have required the company to write down the value of many of its investment projects as a result of the devaluation of the peso and the collapse of property values last year.

Sidek was hit particularly hard by last year's financial crisis. Before the devaluation in December 1994, the company became heavily indebted in dollars to finance hotel and property developments, the prospective revenues of which were mainly in pesos.

The devaluation and economic slump forced Sidek to suspend most of its investment projects. In February this year, the company suspended repayments of principal on its $2.1bn debt, almost two thirds of which is short-term. The first investors to be affected were the holders of a $20m private debt issue which matured last month.

Sidek has reached a preliminary understanding with 17 Mexican banks to restructure its obligations. No agreement, however, has been reached with foreign creditors, who own about $600m of the company's debt, and who are expected to be invited to negotiations this month.

Sidek says it will present a comprehensive restructuring plan to its creditor banks later this month. The plan is expected to include the sale of about $450m of hotels and real estate – about 16 per cent of the group's total assets – to repay bank debts.

In return, creditor banks are expected to capitalise part of Sidek's debts. The plan is being pushed by Banamex, Mexico's largest commercial bank, which holds a significant equity stake in Sidek as well as being the group's biggest creditor.

Not all banks, however, are reported to be happy about the proposed deal. Mexican banks have already become the de facto owners of Aeroméxico and Mexicana de Aviación, the two principal airlines, as a result of forced debt capitalisation schemes.

Recession hits Mexican construction groups

By Daniel Dombey in Mexico City

Mexico's leading construction companies were badly hurt by recession in 1995, according to results released this week.

A strong cash position, growing international interests and reduced operating expenses helped Empresas ICA, the country's largest and most diversified construction company, but for the year as a whole, sales still fell 45 per cent to 5.78bn pesos ($762m). Operating profit fell 75 per cent to 426m pesos, while net profit of 604m pesos compared with 8m pesos the year before.

"Compared with other companies in the industry, ICA has done relatively well," said Mr Luis Villalobos, head of research at Citibank in Mexico City.

The fourth quarter provided some evidence of a slowdown in the decline, with sales down only 21 per cent on the comparable period to 2.2bn pesos.

A rise in financing costs due to the peso's fall and rising interest rates meant a net loss for the quarter of 130m pesos, though that was an improvement on the 624m peso loss in the comparable period.

ICA had a strong cash position of 1.6bn pesos at the end of 1995. However, Mr José Luis Guerrero, the company's chief financial officer, said that "if Mexico's growth increases beyond our expectations in the next six months then we'll obtain financing from abroad".

The company has also expanded its presence outside Mexico, signing contracts in Venezuela and Colombia. Half its total sales for 1995 were denominated in dollars.

It has also cut costs, reducing its workforce from 40,000 to 25,000 in the course of the year.

Meanwhile, Bufete Industrial, another leading Mexican construction company, announced revenues of 2.3bn pesos for 1995, a 13 per cent decline on the previous year. Sales outside Mexico accounted for 29 per cent of the total, more than double the proportion for 1994.

The company, which specialises in building industrial plants, recorded a loss of 461m pesos compared with a 4.8m pesos profit for 1994, the result of financing costs spurred by the Mexican devaluation.

Tribasa also fell into losses, with a 1995 net deficit of 351.1m pesos against a profit in 1994 of 284.7m pesos. Sales were down 62 per cent at 1.8bn pesos, and operating profit fell 71 per cent to 321.6m pesos.

The company's work backlog at the end of 1995 totalled 5.7bn pesos, according to local news service Infosel. Of that, 33 per cent represents work on toll road concessions that are 100 per cent owned by Tribasa.

Group total debt was 6.2bn pesos, down from 7.9bn pesos at the end of 1994.

IBM to increase production of disk drives

By Louise Kehoe in San Francisco

International Business Machines is expanding production of disk drives and other computer data storage products just 15 months after selling off one of its largest disk drive plants at Havant, Hampshire, in the UK.

The $500m investment reflects heavy demand for IBM disk drive products, said Mr Jim Vanderslice, general manager of the $6bn IBM data storage division. Over the next three years the division will increase its production capacity by 60 per cent, he said.

Factories in San Jose, California, Szekesfehervar, Hungary, and Guadalajara, Mexico, are to be expanded. Component plants in east Asia will also be expanded and IBM is opening a small disk drive component plant in China.

"The tide is turning" for IBM's data storage products operations, said Mr Vanderslice. The division, which had been on IBM's "problem" list for several years, is now profitable and is gaining market share in several segments of the data storage market, he added.

The new investment represents a vote of confidence by IBM's top management, he said. Over the past three years the division has shifted from being an internal supplier of storage systems for IBM's computer products operations to raising more than 60 per cent of its revenues from external customers.

Moreover, IBM is gaining market share, he claimed. In the mainframe data storage systems unit, where it competes with EMC, a fast-growing specialist company, IBM increased market share by 5 per cent in the fourth quarter of 1995, he said.

IBM is no longer competing in the low-profit margin area of disk drives for desktop computers, but has won new business in laptops, where it captured 31 per cent of the world market last year, and the network server segment, where it holds a 24 per cent share, he added.

Although IBM announced the sale of its Havant plant to local managers for about $50m in December, the plant is continuing to supply the group with data storage products, said Mr Vanderslice. "We will stay in Havant for another year," he said, "despite higher costs."

Quality of Brazilian bank assets in doubt

Firm action is needed before confidence will return to the industry, says **Jonathan Wheatley**

Allegations of a multi-billion dollar fraud at one of Brazil's biggest banks have raised new worries over the industry, already suffering a crisis of confidence after widespread liquidity difficulties.

Analysts complain that banks' financial statements cannot be trusted, and there are calls for closer inspection of asset quality. Amid mounting criticism of the central bank's regulatory role, the senate has called for a parliamentary commission of inquiry to investigate the banking system.

The latest upheaval surrounds Banco Nacional, which was taken over by the central bank last November after serious cash flow problems.

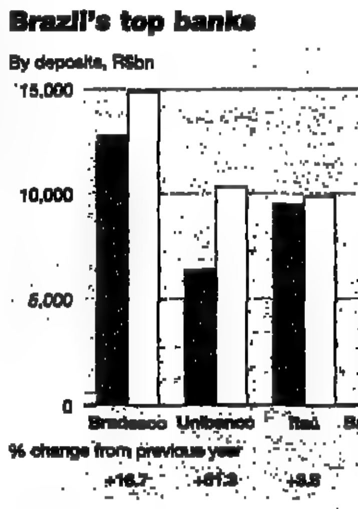
Rumours that the bank was in trouble had been circulating for months, but last week Brazil's main news magazine, Veja, alleged that Nacional's accounts had been fraudulently manipulated since 1986, when it began creating fictitious loans to hundreds of customers to hide bad debts. According to the allegations, the potential shortfall had risen to $4.6bn when the central bank intervened.

Mr Gustavo Loyola, president of the central bank, told congressmen this week he knew Nacional was in "extremely grave" difficulties last October, although he maintained that reports claiming the bank's directors had admitted fraud before the central bank intervened were untrue. However, Mr Loyola failed to convince the upper house of the central bank's competence. The lower house will now vote on whether to join the senate's inquiry.

The central bank avoided a crisis in November by absorbing Nacional's bad debts and selling the healthy remainder of its core operations to Unibanco, a rival heavyweight. But confidence in the industry remained severely dented, not least because Nacional's accounts had been signed off by auditors KPMG Peat Marwick just days before its collapse.

Brazil's top banks

By deposits, R$bn



Source: Company accounts, Gazeta Mercantil

Nor was this the first case of its kind. In August last year another big bank, Económico, went under central bank intervention within weeks of releasing healthy results.

"I wouldn't say that banks' financial statements are completely useless," said Mr Rubens Marcel of Lafis, a firm of analysts in São Paulo. "But at the very least they are insufficient."

What worries analysts is that financial statements, even if they are an accurate account of a bank's assets and liabilities, give no indication of asset quality. This is a particular problem in Brazil for three reasons.

Until the middle of 1994, when economic reforms cut monthly inflation from 50 per cent to less than 2 per cent, banks earned up to half their income from the free float provided by inflation. When that disappeared, they turned to credit operations; but not all banks have learnt how to lend, and many have suffered high levels of non-performing loans as a result.

Another worry is lack of disclosure. Analysts complain that banks are very bad at discussing strategy, and the quality of financial information is very poor in Brazil.

"Bradesco [Brazil's biggest private-sector bank] holds meetings with analysts once every five years, and that's about it," says one. "If you want to find out about the health of a bank, you have to make friends on interbank trading desks. But that's neither easy nor satisfactory."

The third problem is what Mr Marcel calls a "culture of conformity", where nobody challenges the status quo. Although banks and their auditors are answerable both to regulators and under law for the accuracy of their financial statements, they are seldom called to account.

"There is no tradition in Brazil of civil actions against companies or their auditors," he says. "I hope this case will change that."

Mr Gregorio Mancebo Rodriguez, vice-president of analysts' association Abamec, says this reluctance to prosecute, combined with political pressures on the central bank, undermines the efficiency of the banking industry.

"The biggest problem is paternalism," he says. "People think the authorities know best, but authorities like the central bank are subject to political pressures that stop them from acting on purely technical criteria."

Politicians in the north-eastern state of Bahia, where Banco Económico is based, openly put pressure on the government to save the bank. Six months later, the central bank is still trying to finalise a rescue package.

Mr Rodriguez has three wishes that he says would restore stability and credibility to the banking industry: an independent central bank; greater accountability of auditors to shareholders; and a bigger role for ratings companies in providing qualitative risk assessment.

Only the last, he admits, has much chance of being fulfilled, and that will take time; ratings companies are still a new phenomenon in Brazil.

The central bank admits its supervisors committed "errors" in not detecting possible fraud at Banco Nacional earlier. A finance ministry spokesman said an IMF mission arrived in Brazil last week at the government's request to advise on ways of improving the central bank's role as regulator of the banking industry. He said central bank officials have also been sent abroad to learn from regulatory systems in other countries.

So far, the central bank has been remarkably successful in maintaining calm in the banking industry. Despite the collapse of two big high street banks, personal account holders still seem confident that their deposits are safe.

Nevertheless, last year saw considerable movement of deposits from banks thought to be in trouble to others with more stable reputations. The big winners in this movement were Bradesco and Itaú; analysts say both banks have sacrificed profitability in favour of maintaining solid reputations for conservatism.

Once confidence in one bank is undermined, they say, uncertainty quickly spreads to the whole banking system. At the very least, firm action will be needed in the Nacional case before widespread confidence returns.

Banking probe Page 4

RBC posts 12% first-quarter rise

By Bernard Simon in Toronto

Royal Bank of Canada, the country's biggest financial institution, has raised its dividend for the second time in six months after posting a 12 per cent advance in first-quarter earnings.

RBC benefited from sales of Latin American loans, lower loan-loss provisions, securities gains and growth in its investment banking business.

Net earnings climbed to C$356m (US$260m), or C$1.01 a share, in the three months to January 31, from C$319m, or 88 cents, a year earlier. Return on equity rose from 17.2 per cent to 18 per cent, while return on assets widened from 0.73 per cent to 0.77 per cent. Assets totalled C$191.5bn on January 31.

The quarterly dividend moves up by 3 cents a share to 34 cents. Royal trailed other Canadian banks in lifting dividends over the past two years as it rebuilt its capital ratios after the 1993 acquisition of ailing Royal Trust. Total capital stood at 9.6 per cent of assets on January 31.

Ms Teri McCoppin, analyst at Richardson Greenshields in Toronto, said RBC's earnings were "a little ahead of expectations". Results of several other banks that have reported over the past 10 days have also come as a pleasant surprise to analysts.

Growth in the Canadian banks' traditional North American lending business has slowed, with intensifying competition holding down interest rate margins. But this has been offset by the impact of strong bond and equity markets on underwriting and trading fees.

RBC estimates fiscal 1996 loan losses at C$440m, down from C$580m last year. One quarter of the estimate, or C$110m, has been charged against first-quarter earnings. Non-performing loans shrank by 36 per cent, compared with the previous three months, with commercial real estate making up more than half the decline.

Mr John Cleghorn, chairman, told the annual meeting in Montreal yesterday that RBC was seeking openings to expand its international business, especially in the US.

RBC aims to become one of the top 20 global trade finance banks by the end of the decade.

ASIA-PACIFIC NEWS DIGEST

Hindustan Lever in line with forecasts

Lower interest charges and improved tax benefits helped Hindustan Lever, the Indian soap, cosmetics and detergents company and part of the Anglos-Dutch Unilever group, to a 26 per cent rise in after-tax profits for 1995. They rose from Rs1.9bn in 1994 to Rs2.39bn ($70.7m) on a 19 per cent rise in gross turnover, net of excise, to Rs33.7bn.

Pre-tax profits rose 23 per cent, from Rs3.02bn to Rs3.72bn with gross sales, including excise, reaching Rs37.7bn. Profits and sales were in line with market expectations. The company said higher labour and capital productivity had helped keep mass market products competitive despite rising input costs over the year, which the company said were in some cases 25 per cent higher.

Hindustan Lever said its soaps and detergents business reached a record 1m tonnes output for the year, giving the group a third of the Indian market for such products. Personal products, including shampoos, skin care and dental products, also posted record sales and profits growth. The company proposed a 50 per cent final dividend, following a 50 per cent interim in August.

The company said "prudent and proactive" management of financing and foreign currency positions had cut interest costs for the year by 32 per cent, to Rs290m against Rs201m in 1994. It added that the company had benefited from tax benefits accruing both from planned investments in "strategic locations" and from higher export volumes for the year.

Mark Nicholson, New Delhi

Woodside Petroleum up sharply

Woodside Petroleum, the Western Australian energy group and operator of the North West Shelf offshore oil and gas project, yesterday announced a sharp 64 per cent increase in profits in the year to the end of December. It made A$120.5m (US$81.5m) after tax, compared with A$85.8m in 1994.

The result would have been higher but for a A$20m abnormal item, relating to the company's deferred tax liability. The company said sales revenues during the year increased 16 per cent to A$609.3m, with higher volumes of condensate and LNG and slightly higher prices for both products being offset by lower domestic gas sales volumes.

It also confirmed that a decision on the development of the Laminaria and Corallina oil fields in the Timor Sea, at an anticipated cost of A$800m to A$1bn, would probably be made in this year. A decision on the expansion of the NWS venture, which could involve an overall investment of about A$5bn, was also a possibility.

Nikki Tait, Sydney

Tobacco group slips into red

W.D & H.O. Wills, the Australian tobacco group controlled by Britain's BAT, yesterday announced a A$5.2m (US$4m) loss after tax for the year to end-December, compared with a A$50.7m profit in 1994. Sales were down 8.5 per cent at A$890m, and Wills is not paying a final dividend.

The company blamed "intense industry competition" for the plunge into the red, but said that it was confident Wills could return to former profit levels "by improving market share based on the inherent strength of major brands". *Nikki Tait*

Caltex Australia in mining sale

Caltex Australia, the listed offshoot of the US-based petroleum group, yesterday said it had sold its mining interests – dominated by a 52.25 per cent interest in the Bayswater mine – to Coal Operations Australia for A$60m (US$45.6m). COAL already owns 33.25 per cent of the Bayswater joint venture.

Meanwhile, Newcrest, the Australian goldminer which last Friday launched a share raid on Mr Robert Champion de Crespigny's Normandy group, announced it was selling its Ora Banda mine in Western Australia to Centaur Mining for A$17m.

Nikki Tait

Sons of Gwalia ahead at halfway

Sons of Gwalia, one of the rival bidders for Gasgoyne Gold Mines in Western Australia, yesterday announced a net operating profit of slightly more than A$4m (US$3m) in the half year to end-December, which it said represented a 28 per cent increase over the same period in 1994-95. Revenues were 27 per cent higher at A$24.7m. It said net earnings should increase marginally in the second half because of "forecast increased sales of all products".

Meanwhile, Delta Gold, the Australian goldminer which holds an interest in the Hartley platinum mine in Zimbabwe, said after-tax profits in the six months to end-December rose to almost A$7m, compared with A$1.7m in the same period a year earlier. It said new gold production records had been achieved in both the September and December quarters, pushing gold shipments for the half year to 92,110 ounces.

Nikki Tait

Honda car sales up in month

Honda Motor said domestic car sales increased 8.4 per cent year-on-year in February to 56,173 units. The Japanese manufacturer said the increase reflected the rise in sales of its CR-V models to 11,689, of its Odyssey model to 10,984, and of its Integra models to 3,148 units. Sales of imported Honda cars in February totalled 4,711 units, mainly because of strong sales of its US-made Accord Wagon, which rose 21.6 per cent year-on-year to 4,344 units, Honda said. *AFX-Asia, Tokyo*

Packer empire rejuvenates its dynasty

By Nikki Tait in Sydney

Management move comes as PBL reveals sharp first-half increase in sales and earnings

One of Australia's richest family dynasties paved the way for change yesterday when Mr Kerry Packer, 58, announced he was stepping down as chairman of Publishing & Broadcasting (PBL). He will remain a director of PBL, his main listed company.

Mr James Packer, his 30-year-old son, who is already a director of PBL, will become managing director of the company. Mr Brian Powers, an American and the current managing director of PBL, will replace Mr Packer senior as chairman.

PBL, which was formed by a merger of Nine Network and the Australian Consolidated Press group, owns the leading Channel Nine television network, the Packer magazine publishing interests, and part of the Packer interest in John Fairfax, the newspaper publishing group.

Mr Kerry Packer's private interests essentially control the business, with a 45 per cent stake in PBL.

Although there had been no hint of Mr Kerry Packer's move, the it does not come as a complete surprise. His son has been increasingly prominent in the company affairs – for example, handling much of the detailed work resulting from the company's clash with Mr Rupert Murdoch's News Corporation over the televising of rugby league. He has spent most of his working life with his father's business, being groomed to take over the helm.

Mr Kerry Packer suffered a severe heart-attack in 1990, and was technically dead for several moments. Although he subsequently returned to a very active business life, he did appear to be taking greater care of his health. He stopped smoking for a while, and shed a good deal of weight – although the chain-smoking habit subsequently returned.

Mr Packer said his son had been active in the management of ACP since 1988 and in the Nine Network since 1990. "As managing director he will have responsibility for all activities of the group," he said.

The PBL board changes came as the company announced a sharp improvement in interim profits, with the after-tax figure rising from A$70.3m in the first half of 1994 to A$107.7m (US$81.8m) in the corresponding period of 1995.

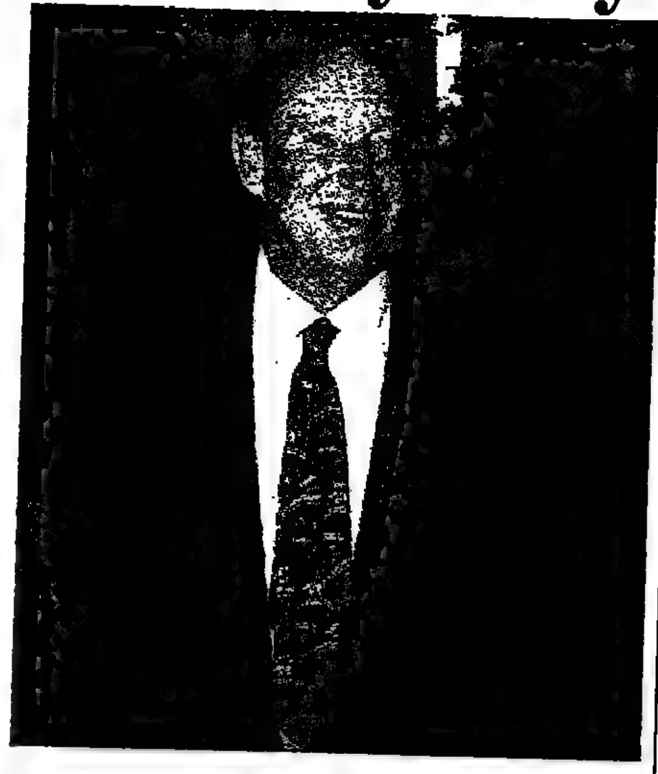
It said it expected its television interests to do better in the second half than in the same period of 1994-95, but warned that the magazine division would do well to report figures similar to last year's. Sales totalled A$666.4m in the six months to end-December, compared with a year-ago figure of A$416.9m.

The company said that advertising revenue from its TV stations was up by 9.3 per cent on a like-for-like basis, with a 41.4 per cent market share. Earnings before interest on this side of the business were 20.3 per cent higher, at A$205.5m.

On the magazines side, pre-interest earnings dipped 2 per cent, to A$63m. Paper price increases hit hard, with expenditure on paper rising by 26.3 per cent. Nevertheless, analysts described the figures as better than expected, and PBL shares rose 14 cents to A$5.60.

Mr Packer, often said to be Australia's richest man and known for his aggressive business style, has suffered mixed fortunes of late. He was at odds with the last Labor government – despite having a close relationship with the party in the past – and was barred from lifting his 17 per cent stake in Fairfax any higher. He also lost out in the bidding for the Sydney casino.

More recently, however, events have been kinder. Last month, Mr Packer signed a co-operation and programme exchange deal with China's national TV broadcaster, which was interpreted as providing a way into the Chinese market. Meanwhile, Australia's new coalition government has promised to review the media cross-ownership rules which prevent any increase in Mr Packer's Fairfax stake.



Reuter

Kerry Packer: will remain a director while his son becomes MD

Sydney to list deliverable share futures contracts

By Nikki Tait

The Sydney Futures Exchange is to begin listing deliverable share futures contracts – ones settled by delivery of stock rather than cash – from the end of this month.

The exchange said yesterday that it had finally received approval for the new system after months of consultation with both the Australian Securities Commission, the industry watchdog, and the federal attorney-general's department.

Deliverable contracts will come into effect on March 29.

The SFE maintains that there will be stronger demand for the deliverable contracts than for the existing cash-settled contracts. "The key benefit of deliverable share futures will be that marketmakers will be able to actively provide bids and offers for share futures that track underlying shares, knowing that they will, on expiry of the contract, settle in shares rather than cash," said Mr. Les Hosking, chief executive of the SFE.

"This better suits their portfolio hedging activities."

Sydney offers contracts on 10 individual shares, one of the few futures exchanges to do so.

Thai group may float store unit

By Ted Bardacke in Bangkok

Thailand's Charoen Pokphand Group is considering a public offering this year of its convenience store business, which operates the country's master franchise of 7-Eleven stores, a senior company executive said.

Mr Sunthorn Arunanondachai, president of CP Land and a senior adviser on financing for the entire CP group, said that the 7-Eleven franchise had an expected market capitalisation of about $400m.

There are currently more than 500 7-Eleven stores in Thailand. About half of them are owned and operated by CP, while the other half are run by independents who have bought franchises from CP.

Mr Sunthorn said the group planned to open 25 new 7-Eleven stores this year.

He also said the total turnover of the CP group of companies now exceeded $10bn. But the group would continue its policy of not issuing a consolidated earnings report, a move that has led several brokerage houses to abandon attempts to analyse the company, 11 of whose subsidiaries are listed on seven different stock markets around the world.

CP is continuing its expansion in China, where it is the country's single largest foreign investor, has "well over 100 factories" and 40,000 employees, Mr Sunthorn said. Unlike many foreign investors in China, the group's operations are dispersed through 27 of the country's 30 provinces.

Mr Sunthorn said CP controlled two of the 10 largest private companies in China. One of those companies, motorcycle manufacturer Ek Chor, is embarking on a big expansion plan, financed almost exclusively with profits made in China and designed to more than double output over the next three years to 2.5m motorcycles annually.

Locally-sourced parts now account for 100 per cent of the 250cc model and 85 per cent of components in the 125cc model, which is built under a technical licensing agreement with Honda of Japan, according to Mr Somphop Petaibanlue, vice president of ECI Group, which is also expanding into beer brewing and construction materials supply.

Chinese authorities' attempts to slow down the economy did not hurt CP's operations there, except in the property sector, where CP has large investments in Shanghai. In fact, Mr Somphop said the slowdown helped CP's low margin businesses by eliminating several of its competitors.

Tobacco operations buoyed by growing global market

BAT reviews financial services

By Alison Smith, Ralph Atkins and Roderick Oram

Further job losses are likely at BAT *Industries* after the tobacco and financial services group yesterday announced a review of its UK financial services operations. It aims to streamline services which support its three brands.

While the review will take in opportunities for increasing income as well as cutting costs, it raises the prospect that staff numbers will fall from the current level of 13,000.

The company announced the review as it reported a 26 per cent rise in pre-tax profits for 1995, to £2.38bn ($3.66bn). Lord Cairns, chairman, said: "A prime task is to develop greater coherence in each of the two businesses."

For 1995, tobacco generated a 54 per cent rise in operating profits to £1.56bn, but profits from financial services were hit by difficult conditions in the UK, although they still rose 7 per cent to £1.05bn.

Mr Martin Broughton, chief executive, said the group expected to announce its plans for restructuring this year. The group owns two UK insurers – Allied Dunbar and Eagle Star – as well as Threadneedle Asset Management.

"I believe we have to look much more closely than we have before at how we support totally differentiated brands," Mr Broughton said. The creation of *Threadneedle*, from the group's two UK-based asset management operations, had been the first step in trying to generate coherence, he said.

Across the UK life sector, cost-cutting has been particularly important against the background of flat or falling sales. Although Dunbar increased its market share in some areas, its contribution to group profits slipped by more than one-quarter, to £153m, because of lower levels of new business and a further provision of £37m for the cost of reviewing personal pensions business.

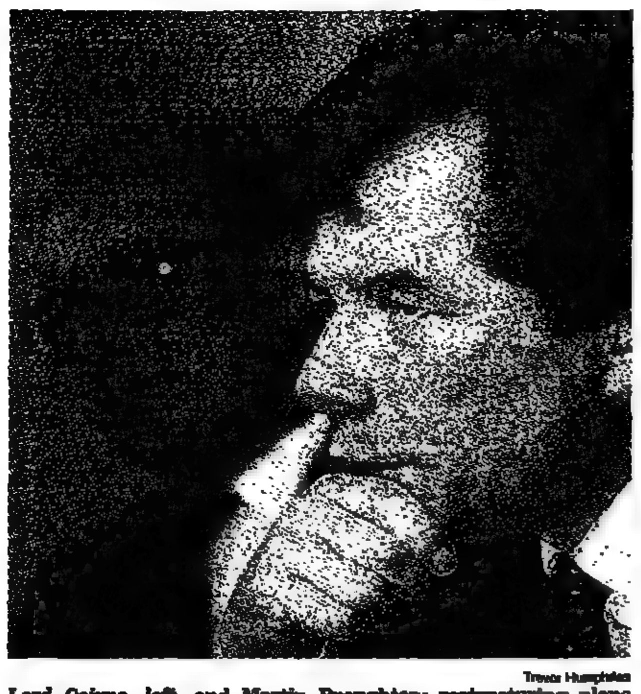
Mr Broughton said the group saw opportunities for financial services development in markets such as China and India.

The company gave an upbeat assessment of long-term prospects for its tobacco operations. Not only was the *global market growing* at about 1 per cent, after years of forecasts of decline, but BAT was well placed to generate higher profits in mature and developing markets.

An 18 per cent rise took the number of cigarettes sold to 670bn, for an increased share of the world market of 12.4 per cent, against 10.7 per cent previously.

American Tobacco, purchased last year, accounted for about 33 per cent of the 100bn increase in volume and other acquisitions added 20 per cent. All of BAT's regions showed growth in both mature and developing markets.

BAT cautioned, however, that this year it would not match 1995's growth rate, which was substantially boosted by the American Tobacco purchase.



Trevor Humphries

Lord Cairns, left, and Martin Broughton: restructuring plans *expected this year likely to involve further job losses*

Soft drinks boost Cadbury

By Roderick Oram, Consumer Industries Editor

A big increase in soft drink profits helped Cadbury Schweppes overcome hot weather and other setbacks in confectionery to report a 10 per cent rise in pre-tax profits to £526m ($810m) for the year ended December 30.

The group also announced that Mr David Wellings, the chief executive, will retire in September to pursue personal interests. Cadbury said the move was long-planned and it had begun to review internal and external candidates for the post.

Dr Pepper/Seven-Up, the newly-acquired US drinks company, which contributed 10 months' profits to results, beat the group's expectations. A relaunch of the 7-Up brand could help it regain its position as the leading lemon/lime drink in the US in five years.

In the UK, Coca-Cola & Schweppes Beverages, a joint venture with the US group, overcame competition from own-label drinks and rapid cost rises to increase its volumes by 11 per cent, with only a minor dip in profits.

Overall, soft drink operating profits were up 52 per cent to £409m on sales up 28 per cent to £2.81bn. Trading margins *improved by 2.4 percentage* points to 14.6 per cent, reflecting the higher margin franchise nature of Dr Pepper.

The group is poised to solve one of its soft drink problems by forming a joint venture in France with San Benedetto, an Italian producer of mineral water and soft drinks.

Rationalising in France will total £30m-£35m this year for Cadbury but the joint venture will lower its cost base. Spanish operations returned to profit.

Confectionery trading profits rose 2 per cent to £240m on sales up 8 per cent to £1.97bn. Trading margins slipped 0.6 percentage points to 12.2 per cent.

UK volumes were up 3 per cent in a lower market reflecting mainly the hot summer weather.

The group increased market share in Australia and South Africa and acquisitions gave it market leadership in Canada. It also continued to invest heavily in emerging markets.

It commissioned new plants in Poland, China and Argentina and production trials will start in Russia this autumn.

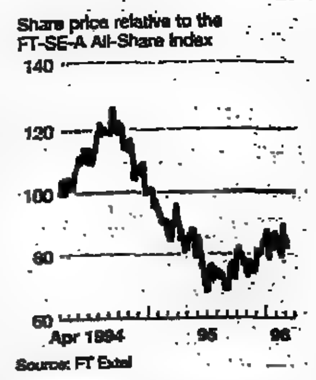
LEX COMMENT

House of Fraser

House of Fraser keeps finding more stock to clear out. Yesterday the ailing department store group announced the departure of Mr Andrew Jennings, its managing director of four years, and Ms Rebecca Sharp, merchandising director, after just four months. For a group that has been dogged by a stock overhang, poor buying decisions and sluggish sales during its 22 months on the stock market, the boardroom is now desperately short of retailing experience. Luckily for investors, that has almost ceased to matter.

House of Fraser

Share price relative to the FT-SE-A All-Share Index



Source: FT Extel

Yesterday's 6 per cent jump in the shares to 188p – leaving the group trading on more than 40 times earnings – shows that House of Fraser is being regarded as a recovery stock or a takeover target.

Either outcome should be able to release some of the group's intrinsic value. House of Fraser is sitting on fixed assets worth 140p a share, much of it freehold property on prime town centre sites.

Its gross margins are only 32 per cent against a 45 per cent average for clothing retailers and the current market capitalisation is less than 60 per cent of its turnover.

If House of Fraser continues to under-perform as a retailer, it should consider turning itself into a landlord. It already gets income of £50m from renting out one third of its floorspace to concessions.

Renting out the rest should more than double that, while liquidating stock and overheads would enable the group to repay its borrowings and eliminate interest costs. The net effect could be pre-tax profits of over £100m compared with the £15m it made last year.

DIGEST

House of Fraser chief departs

Mr Andrew Jennings, managing director of House of Fraser, is leaving the UK department store group amid widespread dissatisfaction among shareholders with the company's performance.

His departure after four years in the job follows five profit warnings by the company since its 1994 flotation by the Fayed brothers, owners of the London landmark, Harrods.

House of Fraser's non-executive directors and investors have made clear their unhappiness with the company's performance.

Mr Brian McGowan, chairman, denied that institutional pressure had led directly to Mr Jennings' departure. However, he said it had become apparent that the managing director had lost credibility with the City.

The company has suffered from severe stock problems *which were not apparent at flotation.* In January, a trading statement led to some £10m being wiped off the market's 1996 profit expectations of £25m.

Mr Jennings joined House of Fraser from Harrods in 1992. He has been responsible for refocusing on fashion clothing and for a £50m refurbishment to stimulate sales in its 50 stores.

Mr McGowan will take up his responsibilities until a replacement can be found. Mr Jennings was on a one-year contract with a salary of £270,000. He also has some £440,000 share options exercisable next year at 180p.

The market welcomed the management changes, with the shares rising above the 180p offer price for the first time in 15 months, to close 11p higher at 188p. Analysts said, however, that the sheer scale of the task facing the group could make it difficult to find a suitable replacement for Mr Jennings. "There is profit potential in this business, but realistically no *one could expect it to be unlocked in a short period of time,*" one said.

Peggy Hollinger

Emap confirms purchase

Shares in Emap rose 27p to 612p yesterday after the media and publishing group confirmed the purchase of three French consumer magazines in a deal worth FFr1.1bn.

Emap is paying FFr1.4bn for the publishing interests of Compagnie Luxembourgeoise de Télédiffusion, Tele Star, although the net figure is FFr300m less owing to the surplus cash contained in the group.

Emap, which is financing the deal from existing arrangements, is paying 60 per cent of the price this month, with the balance in stages over the next 11 months.

Christopher Price

Unilever sells Rimmel-Chicogo

Unilever, the Anglo-Dutch consumer goods company, is moving out of lipsticks, nail varnish and face powder by selling Rimmel-Chicogo, its *main mass-market colour* cosmetics interest, to Joh A Benckiser, the German consumer products group.

Unilever, which refused to reveal the terms of the transaction, said it planned to concentrate on prestige and mass-market toiletries rather than cosmetics. It also wants to focus on products that could be distributed globally. Rimmel-Chicogo products "don't have that sort of global presence".

Mr David Hallam, analyst at Williams de Broë, said the refocus would probably lead it to sell numerous operations including John West, the fish products business, and Nordsee, a German frozen fish business.

In January Benckiser bowed out of a bid battle for Maybelline, the second biggest US cosmetics company. It was bought this week by L'Oréal, the French cosmetics business, for $600m (£389.6m).

Benckiser's annual sales are $3.3bn, *of* which $1.5bn *are* from cosmetics. Rimmel-Chicogo has sales of more than £75m and holds international rights to the Rimmel, Pierre Robert, Sensiq and Chicogo *brands*, with production facilities in the UK and Germany.

Simon Kuper

Gehe publishes Lloyds offer

Gehe, the German drugs wholesaler, yesterday published its offer document for Lloyds *Chemists – but pointed out that* shareholders might want to wait until the regulatory position was clearer before accepting.

The offer is worth 500p for each share in Lloyds, valuing the pharmacy chain at £650m. A rival £621m offer from UniChem, which like Gehe has 30 per cent of the UK of the UK drugs wholesale market, lapsed last week when it was referred to the Monopolies and Mergers Commission.

Gehe's offer falls under the jurisdiction of European merger authorities. It is understood that it is on today's agenda for Mr Karel Van Miert, the competitions commissioner, at a routine meeting with directors.

The European Commission, which has until March 23 to make a decision, is expected to refer the matter back to the UK. Gehe's offer would lapse on a referral to the MMC.

The MMC has until June 28 to make its report on Unichem's offer. If Gehe's offer were also to be referred, the two reports would probably be synchronised. Then both sides would have 21 days to decide whether to resume the battle.

Gehe yesterday indicated that it would pursue any referral. But if the offer were to proceed, acceptances would have to be made before the afternoon of March 27. *David Blackwell*

COMPANY NEWS: UK

Vickers up 67% as directors sell shares

By Bernard Gray, Defence Correspondent

Vickers, the defence and automotive group, fired on three of its four cylinders in 1995 to drive pre-tax profits up 67 per cent from £44.8m to £75m ($115.5m).

The defence, automotive and propulsion technology divisions all saw strong profits growth, but the medical equipment business suffered, with profits falling.

However, the company was more cautious about overall prospects for the current year, and acknowledged that it was having teething troubles with its deliveries of Challenger 2 tanks to the British Army.

Several directors, including Sir Colin Chandler, chief executive, yesterday exercised share options and sold the shares. Sir Colin sold 188,112 shares at 292p. He is left with 42,500 shares. The shares closed down 9p at 278p.

Vickers' sales increased by 59 per cent to £1.15bn (£727m), driven by increased sales in the defence division as production of the Challenger came on stream.

Defence sales rose to £353m (£126m), but the increase in its operating profit was modest, up to £15.9m (£12.7m). Production of the tank has been slowed from five tanks a month to four while a team tackles the difficulties.

The intermittent problems have arisen in the turret electronics which control the Challenger's gun, and appear to stem from quality difficulties with the production tank's equipment which did not show up in the prototypes.

In the automotive sector, Vickers had a good year, with automotive operating profits nearly doubling to £40.9m (£21m), on turnover up 38 per cent to £397m.

Sales of Rolls-Royce cars increased 10 per cent to 1,556 vehicles. Cosworth, the specialist engine maker, also had a good season, winning the US IndyCar championship and powering 70 per cent of the cars in the competition.

Propulsion technology fared well with a 55 per cent rise in profits to £17.1m, but the medical equipment business fell to just £900,000 (£6m), on sales of £123m.

Analysts are now looking for less spectacular profits growth to £85m this year, giving a forward p/e of nearly 16. Bid talk is buoying the shares, but that looks overdone.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Amco Φ	Yr to Dec 31	97.2	(56.8)	1.1♠	(2.04)	7.1	(9.1)	3.5	July 1	3	5	4.5
BAT Inds	Yr to Dec 31	23,376	(21,136)	2,384	(1,885♠)	47.7	(40)	14.75☆	July 1	13.4	27.69	24.25
BWD Securities	Yr to Nov 30	14.7	(14.7)	2.51	(3.01)	8.3	(10.4)	3.3	Apr 12	2.5	5	4.2
Cadbury Schweppes	Yr to Dec 30	4,776	(4,030)	526♠	(478)	31.3	(30.2†)	11.1	May 24	11	16	15.6
Cape	Yr to Dec 31 #	243.7	(168.1)	11.5	(9.1)	14	(10.2)	8	May 9	5.25	11	8.25
Financial Pubs Φ	6 mths to Dec 31 ‡	2.26	(2.57)	0.225	(0.002)	9.52	(0.001)	-	-	-	-	-
Glaxo Wellcome	18 mths to Dec 31 ★	10,490	(5,656)	2,387♠	(1,835)	44.5†	(42.7)	15	May 20	18	45	27
Guinness Peat	Yr to Dec 31	72.1	(59.7)	21.4♥	(8.42♥)	3.07†	(2.01)	0.2	May 17	-	0.2	-
Merivale Moore	6 mths to Dec 31	3.58	(3.04)	1.03	(0.852)	4.08	(3.68)	1.5	Apr 22	1.25	-	3.75
Ockham	15 mths to Dec 31 ♦	28.2	(26.9)	11L♠	(15.6L♠)	15.9L	(31.1L)	2.75	June 12	2	3.75	3
PTS	Yr to Dec 31	61	(49.5)	2.26	(2.13♥)	7.8	(9.2)	2.4	May 8	-	3.6	-
Stat-Plus	Yr to Dec 31	13.96	(12.55)	3.85♠	(3.5)	12.07	(10.9@)	5.7	May 28	5.18	10.45	9.5
Strong & Fisher §	Yr to Dec 31	112.9	(106.9)	3.31	(3.85)	1.21	(1.36)	0.8	May 24	0.8	1	1
T&N	Yr to Dec 31	2,092	(1,936)	120.1♠	(10.7)	13.3	(3.2L)	3	July 12	3.35	6	10.85
Vickers	Yr to Dec 31	1,144	(727.2)	75♠	(44.8♠)	15.6	(9.8)	4.3	May 3	3	6.7	4.75
Woodchester Invs ♣	Yr to Dec 31	-	(-)	38.4	(30.5)	13	(11.35)	4.08	May 17	3.55	6.83	5.94
Wyevale Garden	Yr to Dec 31	45	(39.9)	6.57	(6.75♥)	11.7	(12.7)	2.1	Apr 18	1.81	5.32	4.84

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Candover Invs	Yr to Dec 31	464	(377)	3.72	(3.41)	16.83	(15.24)	8.75	May 16	8.1	13.25	12.25
Smaller Companies	Yr to Dec 31	151.5	(130.9)	1.7	(1.54)	3.46	(3.14)	1.7	Apr 23	1.55	3	2.75

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ☆Foreign income dividend; additional FID of 3.6875p (3.05p) also proposed. #Comparatives for 9 months. ΦAim stock. ‡Comparatives for 14 months. ★Comparatives for 12 months and restated. @Comparative restated. ♦Pro forma; comparatives for 12 months. §USM stock.

Cautious statement clips T&N shares

By Tim Burt

T&N, the specialist engineering group, yesterday reported a sharp increase in profits amid strong demand for its motor components, particularly in Britain and continental Europe.

The company, one of the world's largest manufacturers of brakes, bearings and piston products, saw underlying profits last year rise 26 per cent to £226.6m ($345m) on sales of £2.09bn (£1.94bn).

The shares fell 7p to 164p, however, after Sir Colin Hope, chairman, said demand had eased at the end of the year and warned of continuing market uncertainty.

"We don't see huge volume growth and recognise that things are difficult," he added.

But Sir Colin blamed the share price fall on an over-reaction by City analysts, some of whom expressed concern at T&N's cautious outlook. "Despite the conditions, we are relatively optimistic that the markets will pick up."

T&N said it made significant progress last year by pushing operating margins from 9.9 per cent to 11.1 per cent, while cutting working capital and increasing capital expenditure.

Asbestos costs – covering legal fees and compensation payments left over from T&N's role as an asbestos producer – fell from £140m to £51.3m. That helped lift pre-tax profits from £10.7m to £120.1m.

Sir Colin said the increase would have been still greater, had the group not taken a £19.4m exceptional charge to cover the cost of financing share options on 49.99 per cent of Kolbenschmidt, the German pistons manufacturer which it is trying to buy.

Although the German cartel office has blocked the proposed takeover, T&N said it would continue with an appeal. It is also considering a possible joint venture and making an approach to the competition authorities in Brussels.

Butte to continue claim

By Kenneth Gooding, Mining Correspondent

Shares in Butte Mining, which is mainly occupied in suing former managers, promoters and their advisers, jumped 50 per cent yesterday, from ⅝p to 2⅛p, after it reported a "favourable judgment" in the London High Court.

As a consequence Butte is able to continue to pursue a claim against Ernst & Young, the international accountancy firm, in the UK.

Butte was suing for up to $1bn (£600m) in the US, but the courts there said they did not have jurisdiction. Nevertheless, it is left with two UK lawsuits seeking damages of about £110m.

The second lawsuit is against certain subsidiaries of the Robertson group, now owned by Simon Engineering. Butte said: "While these subsidiaries appear unable to pay the full amount that Butte is claiming, Ernst & Young are presumed to have sufficient resources or insurance to meet any judgment Butte eventually may obtain." Butte warned it would "have to raise a few million" to take the case to court.

Ernst & Young said: "We remain confident we have a strong defence."

Little interest in lossmaking Cunard

By Tim Burt

Leading cruise operators yesterday said they were not interested in buying Cunard, damping expectations that the struggling cruise line would be sold following the £904m takeover of Trafalgar House by Kvaerner.

Although the Norwegian shipbuilding and engineering group claimed that it had been approached about Cunard, the world's largest cruise companies said the lossmaking Trafalgar subsidiary was an unattractive proposition and unlikely to be sold as a going concern.

Of the possible buyers, Royal Caribbean Cruises, Sea Containers and the Walt Disney Corporation said they would not be discussing an acquisition with Kvaerner.

The other contenders, P&O and Carnival of the US, let it be known that they too were reluctant to take over the eight-ship fleet.

Disney Cruise Lines, formed by the entertainment group last year, said: "We have no interest in Cunard or the QE2. It is seen in the industry as something of a liability."

Its views were echoed at Royal Caribbean, which said it would proceed instead with plans to take an equity stake in Costa Crociere, the Italian cruise operator.

If Kvaerner cannot secure a sale, some analysts suggested the Cunard fleet could be sold off individually, with the QE2 as the prize asset.

Alternatively, the Norwegian group may have to continue with Trafalgar's two-year restructuring of Cunard, aimed at turning the luxury passenger line into a viable business.

COMMODITIES AND AGRICULTURE

Copper statistics may be wrong, says bureau

By Kenneth Gooding, Mining Correspondent

The World Bureau of Metal Statistics, whose data are used by many international metals markets analysts, admitted yesterday that its global copper figures might be wrong.

"We are trying to get a handle on the problem," said Mr Lloyd Davies, general manager.

The probability that the statistics were wrong was raised by the Bloomsbury Minerals Economics consultancy in its latest copper briefing newsletter. Mr Peter Hollands, the author, suggested: "Evidence for systematic error in the [WBMS] data comes from the mis-match between supply-demand balances and stock changes year after year."

The WBMS figures show cumulative refined copper production for 1993-95 at 34.08m tonnes and consumption of refined copper at 34.6m tonnes, indicating a supply deficit during that time of 520,000 tonnes.

Yet the stock figures reported by the WBMS show a fall of only 50,000 tonnes during the same period.

Mr Holland suggested the error was in the consumption statistics because the WBMS production figures were in line with the best plant-by-plant surveys of the copper industry. He calculated that consumption was over-stated by 20,000 tonnes a month last year.

However, Mr Davies said the WBMS believed the error was likely to be in the production figures. It was possible that refineries were re-melting high-quality scrap copper but not including that part of their output in the statistics supplied to the WBMS.

Mr Hollands said he was delighted the WBMS was taking action. "The WBMS has my sympathy. It is doing a very difficult job. But whether the problem is with the production or the consumption figures, there is a real risk that busy analysts will take the statistics at face value."

He said he stood by the substance of his comments in the newsletter, which warned that the London Metal Exchange's copper market faced a period of soaring stock levels and crashing prices.

It said: "Our analysis of the fundamentals points to average cash prices no higher than 100 cents to 105 cents a pound ($2,204 to $2,314 a tonne) this year and about 80 cents to 85 cents ($1,763 to $1,873) next year."

BME forecast that the global supply surplus would be about 300,000 tonnes this year and 310,000 tonnes in 1997, compared with a deficit of 105,000 tonnes last year.

Mr Hollands predicted that by the end of August this year stocks in LME-authorised warehouses will have jumped to 425,000 tonnes from their current 347,775 tonnes.

Copper Briefing Service, £725 or US$1,150 for 12 issues from BME, 70 Marchmont Street, London WC1N 1AB, UK.

Caution urged on milk quota abolition

By Deborah Hargreaves

The European Union should give careful consideration to the value of milk quotas when looking at reforms of the dairy regime, British agricultural surveyors urged yesterday.

The European Commission plans to start discussing the milk sector later this year. Dairy quotas are due to be abolished in 2000.

The surveyors stressed the great capital value committed to quotas in EU countries. "Cost structures and borrowings are linked to the milk price supported by quota," the surveyors said in evidence to a UK agricultural select committee of MPs.

A working party of the Royal Institution of Chartered Surveyors and the Central Association of Agricultural Valuers described the abolition of milk quotas as "traumatic", and expressed concern about the competitiveness of EU dairying.

EU alters banana import regime

By Caroline Southey, in Brussels

Mr Franz Fischler, the EU commissioner for agriculture, yesterday announced changes to the EU's banana regime in an attempt to overcome resistance to a system which grants preferential access to African, Caribbean and Pacific countries.

The EU's banana import regime has been the subject of furious rows between member states and between the US and EU.

Earlier last month the US filed a second complaint against the EU at the World Trade Organisation, claiming the regime violated international trade rules because it discriminated unfairly in favour of imports from ACP nations at the expense of Latin American producers.

Under Mr Fischler's proposals, operators who traditionally imported Latin American bananas would be given 70.5 per cent of the quota, up from 66.5 per cent, while operators trading ACP bananas would be given 26 per cent of the quota, down from 30 per cent.

The changes are linked to a 353,000-tonne increase in the quota to 2.35m tonnes, which was made to take account of the accession of Sweden, Finland and Austria to the EU early last year.

Mr Fischler said the change reflected trading patterns in the three new member states, which had almost exclusively imported Latin American bananas before they joined the union.

However he added that he did not want the changes to "prejudice ACP bananas" either.

Mr Fischler's efforts to have the quota increased have been blocked in successive meetings of the Council of Ministers. Although he has been under intense pressure from some quarters to reform the import regime, changes have proved impossible because EU agricultural ministers were split between those who wanted the regime changed substantially, such as Germany, and those, led by France, who were eager to protect the system of preferences.

Mr Fischler has also proposed an allowance of 90,000 tonnes of non-traditional ACP bananas from countries such as Belize, Ivory Coast and Cameroon to be imported under the same preferential terms as traditional ACP bananas. Previously these bananas had to be traded with the same import licences used for "dollar" bananas.

The commissioner has also proposed a system to "alleviate hardship cases". This system would allow EU importers to extend the period over which their import licences are calculated, known as a reference period, from two to four years.

Cropped: some banana importers will lose market share in the EU

South Africa bans mineral sand scheme on environmental grounds

By Kenneth Gooding

Environmentalists claimed an important victory yesterday when South Africa's cabinet banned the development of a mineral sands project by Richards Bay Minerals in the St Lucia estuary on the east coast in KwaZulu-Natal province.

The cabinet concluded that mining the eastern shore would harm sustainable economic development of the region and that the project was incompatible with tourist development at St Lucia.

The four ministers who dealt with the matter called for the wetland to be registered as a World Heritage Site and promoted as a tourist attraction.

RTZ-CRA, joint owner of RBM with Gencor of South Africa, said it accepted the decision and had already made plans to cater for a refusal. RBM's existing mining activities in the area would last for another 20 years at the current production rate. The venture produces titanium dioxide, used as a whitener in paint and other surface coatings.

Separately, RTZ-CRA announced that another big mining project in South Africa had been given the go-ahead. Palabora Mining is to develop an underground copper mine below its open pit at the Phalaborwa mine in the Northern Province, at a cost of US$440m.

Palabora, 39 per cent owned and operated by RTZ-CRA, is the only local producer of copper capable of meeting South Africa's current needs for the metal.

Full production from underground will be timed to coincide with the closure of the open pit in 2002. However scheduled annual copper production of 90,000 tonnes from the underground pit will be more than 20 per cent below last year's output of 115,800 tonnes.

Cash operating costs of underground output are forecast at 50 US cents a pound ($1,102 a tonne).

Anglo American Corporation owns 28.6 per cent of Palabora, which employs 2,900 people.

MARKET REPORT

Asturiana considers loss provision on zinc futures

Zinc market participants were yesterday wondering about the implications of an announcement by Asturiana, the Spanish producer, that it was considering making an extraordinary provision of Pta11.949m ($95.6m) against possible losses on a long position in zinc futures.

Asturiana was reported to have agreed that Glencore, the Swiss trading group, would manage the position with the intention of eliminating it. Some traders suggested that the producer might have accumulated sizeable zinc stocks separate to those in London Metal Exchange warehouses.

However analysts at Macquarie Equities said last night it was clear Asturiana did not hold physical stocks either inside or outside LME warehouses but that it had a futures and options position.

"We believe Asturiana's position has already been factored into the market (hence the lack of price reaction to the news). Looking forward, it is potentially bullish because the long position is in much stronger hands. At worst it is neutral," said the Macquarie analysts.

Zinc for delivery on the LME in three months closed last night at $1,049 a tonne, down $3.25.

Peabody loses court battle over Hunter Valley coal mine consents

by Nikki Tait, in Sydney

Plans by Peabody Resources, an offshoot of Britain's Hanson group, to develop an A$370m coal mine in Australia's Hunter Valley were dealt a serious setback yesterday when a New South Wales land and environment court declared that the development consents for the project were invalid.

Development of the Bengalla open-cut mine has been the subject of a fierce and protracted battle between Peabody and Rosemount Estates, one of the most highly-regarded Hunter Valley vineyards. Rosemount, which owns land near the proposed mine site, is worried about the environmental implications.

In the Hunter Valley the proximity of coal mining and grape growing – the two industries for which the region is best known – is particularly close.

In August last year the NSW state government said it would allow the project to go ahead "in recognition of its importance to the state and the national economy". But Rosemount lodged an application with the court, claiming the approval was invalid.

Yesterday Mr Roland Lee, Bengalla's general manager, would not say whether the company would mount an appeal against the ruling but said it was an option. He said he expected the matter would be taken up first with the NSW state government.

The mine would be owned jointly by Peabody and a group of Thai, South Korean and Japanese investors, and have a projected output of 5.5m tonnes of coal annually over its 35-year life. Peabody said that it had already called for tenders on the A$50m dragline, and was three months away from beginning construction.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1586.5-87.5	1615.5-17.0
Previous	1594-95	1624-25
High/low	1586.5/1585	1625/1613
AM Official	1587-87.5	1616-7
Kerb close		1614-5
Open int.	212,277	
Total daily turnover	47,140	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1340-50	1380-85
Previous	1355-60	1390-95
High/low		1385/1380
AM Official	1335-45	1378-80
Kerb close		1375-80
Open int.	5,105	
Total daily turnover	533	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	738.5-9.5	738-39
Previous	757-58	756-56.5
High/low		755/737
AM Official	742-44	741.5-42.0
Kerb close		743-4
Open int.	37,025	
Total daily turnover	10,636	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7650-60	7755-60
Previous	7720-30	7825-30
High/low	7615/7610	7820/7700
AM Official	7609-10	7710-15
Kerb close		7765-70
Open int.	40,689	
Total daily turnover	8,911	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6070-75	6141-42
Previous	6120-30	6185-90
High/low		6175/6140
AM Official	6070-75	6140-45
Kerb close		6156-8
Open int.	15,313	
Total daily turnover	3,726	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1028.5-9.5	1048.5-49.5
Previous	1030.5-1.5	1052-52.5
High/low	1028.5/1028	1055/1046
AM Official	1027.5-28	1047-48
Kerb close		1054-5
Open int.	79,614	
Total daily turnover	23,868	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2566-68	2524-25
Previous	2587-90	2537-38
High/low	2564/2563	2539/2522
AM Official	2563-64	2522-23
Kerb close		2525-7
Open int.	168,241	
Total daily turnover	53,685	

■ LME AM Official £/$ rate: 1.5285
LME Closing £/$ rate: 1.5300

Spot: 1.5292 3 mths: 1.5265 6 mths: 1.5235 9 mths: 1.5207

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	119.10	+0.15	118.20	117.30	883	4,308
Apr	117.55	-0.50	117.60	116.90	138	1,510
May	116.85	+0.40	116.95	115.30	4,209	18,665
Jun	115.15	+0.35	115.00	115.00	6	767
Jul	113.85	+0.30	113.90	113.25	384	4,654
Sep	111.85	+0.30	111.80	111.60	95	2,984
Total					5,896	40,673

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	393.60-393.90		
Opening	393.60-393.90		
Morning fix	393.60	257.289	473.304
Afternoon fix	393.60	257.339	472.792
Day's High	393.95-394.25		
Day's Low	393.20-393.50		
Previous close	393.10-393.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.18	6 months	3.56
2 months	3.95	12 months	3.30
3 months	3.81		

Silver Fix	p/troy oz.	US cts equiv
Spot	350.45	536.00
3 months	355.55	542.80
6 months	360.25	548.65
1 year	369.35	560.65

Gold Coins	$ price	£ equiv
Krugerrand	393-396	257-259
Maple Leaf	404.90-407.40	
New Sovereign	92-95	60-62

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	393.2	-0.1	-	-	1	1
Apr	394.4	-0.2	395.4	393.6	31,555	89,777
Jun	397.1	-0.2	398.2	396.3	3,358	41,330
Aug	399.5	-0.2	400.8	399.4	30	12,421
Oct	401.8	-0.2	403.0	401.2	30	4,189
Dec	404.2	-0.2	405.3	403.6	701	14,781
Total					36,083	208,708

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	409.2	+0.9	410.0	408.0	1,395	14,609
Jul	411.7	+1.0	412.0	410.5	95	6,165
Oct	414.0	+1.0	414.5	413.5	22	1,478
Jan	416.0	+1.0	-	-	326	796
Total					1,812	22,946

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	135.85	+1.60	135.25	134.25	60	152
Jun	136.10	+1.35	137.00	134.25	778	6,240
Sep	137.35	+1.35	-	-	1	129
Dec	138.60	+1.35	139.75	139.75	1	77
Total					839	6,598

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	535.4	+1.6	537.5	535.5	146	705
May	540.7	+1.7	543.0	537.5	13,322	49,663
Jul	545.3	+1.7	546.0	542.0	2,175	13,406
Sep	548.7	+1.7	551.0	550.0	302	10,919
Dec	556.3	+1.7	557.0	554.0	206	7,373
Mar	562.9	+1.7	562.5	562.5	2	2,654
Total					16,228	87,724

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	19.90	+0.38	19.93	19.38	29,540	89,653
May	18.84	+0.24	18.88	18.48	19,359	69,496
Jun	18.23	+0.16	18.27	17.86	9,242	43,368
Jul	17.87	+0.14	17.88	17.55	7,000	30,008
Aug	17.58	+0.08	17.62	17.44	4,075	19,700
Sep	17.43	+0.10	17.43	17.25	536	16,211
Total					73,602	419,466

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	18.16	+0.24	18.16	17.75	18,404	52,829
May	17.26	+0.21	17.26	16.93	14,379	48,879
Jun	16.78	+0.14	16.76	16.51	2,376	29,868
Jul	16.42	+0.17	16.42	16.25	1,090	35,195
Aug	16.20	+0.13	16.20	16.10	328	8,374
Sep	16.07	+0.07	16.07	16.00	257	11,913
Total					38,735	210,947

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	53.60	+0.80	53.65	52.40	13,150	26,184
May	50.15	+0.48	50.15	49.20	3,994	14,203
Jun	48.65	+0.23	48.70	48.00	2,204	11,659
Jul	48.30	+0.13	48.30	47.90	532	8,147
Aug	48.50	-0.07	48.50	48.20	104	5,511
Sep	49.20	-0.07	49.20	49.20	137	2,743
Total					21,258	84,741

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	174.25	+5.50	174.75	170.50	8,584	19,595
Apr	158.75	+0.50	160.00	158.25	6,258	17,698
May	153.25	+0.75	154.25	152.75	1,809	6,780
Jun	150.50	+0.50	151.25	150.00	289	8,083
Jul	149.50	+0.50	150.00	149.00	406	4,871
Aug	149.50	+0.25	149.75	149.50	157	3,372
Total					17,564	70,697

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	2.210	+0.038	2.235	2.165	18,604	26,783
May	2.090	+0.025	2.105	2.080	3,053	17,900
Jun	2.005	+0.012	2.015	1.990	999	14,567
Jul	1.950	+0.006	1.960	1.940	687	12,764
Aug	1.925	+0.009	1.930	1.920	450	11,696
Sep	1.900	+0.004	1.910	1.890	313	9,021
Total					23,393	141,505

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	59.55	+0.46	59.70	58.40	12,262	29,768
May	58.90	+0.52	59.05	57.90	4,786	16,207
Jun	57.85	+0.52	58.00	57.00	642	8,064
Jul	56.40	+0.42	56.45	55.80	484	5,572
Aug	55.00	+0.37	55.05	55.00	202	3,305
Sep	53.65	-	-	-	91	701
Total					18,483	64,200

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	115.30	+0.20	115.00	115.00	30	226
May	117.60	+0.30	117.50	116.75	176	3,397
Jul	119.50	+0.20	119.50	118.90	40	625
Sep	109.85	+0.50	109.00	109.00	5	210
Nov	110.85	+0.30	111.00	110.20	56	1,482
Jan	112.60	+0.30	112.35	112.00	34	335
Total					341	6,304

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	503.25	-8.00	514.00	501.00	1,795	6,971
May	486.00	-6.50	490.50	485.00	5,865	28,573
Jul	454.00	-3.00	461.50	451.50	16,368	48,817
Sep	457.50	-2.50	464.00	455.00	1,327	8,832
Dec	469.25	-3.50	475.00	466.75	938	6,661
Mar	469.50	-2.50	473.00	469.50	18	290
Total					28,390	100,866

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	383.00	-0.25	387.25	381.00	11,273	18,695
May	381.00	+1.00	383.75	378.25	44,092	201,885
Jul	374.50	+1.00	377.00	371.75	16,665	120,719
Sep	325.00	+1.25	325.75	324.00	2,116	35,782
Dec	312.75	+1.75	313.50	310.50	13,866	88,459
Mar	317.75	+1.50	318.75	317.25	311	7,191
Total					88,234	474,387

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	107.90	-0.35	106.00	106.00	20	313
May	108.20	-0.60	108.40	108.40	29	479
Sep	100.75	+0.15	-	-	2	37
Nov	107.75	+0.50	107.10	107.10	23	509
Jan	109.70	+0.45	-	-	-	93
Total					45	1,456

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	716.00	+2.25	718.50	713.00	7,498	5,122
May	726.50	+3.00	726.50	722.00	41,841	74,341
Jul	735.75	+3.75	737.00	730.00	11,287	49,349
Aug	737.00	+3.75	737.50	734.00	827	5,925
Sep	727.75	+3.50	729.00	726.00	238	3,922
Nov	725.50	+5.00	728.00	721.50	12,065	53,192
Total					73,823	197,203

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	23.62	+0.17	23.62	23.47	5,788	4,162
May	23.92	+0.12	23.98	23.81	12,587	37,379
Jul	24.30	+0.12	24.36	24.12	3,550	26,774
Aug	24.50	+0.14	24.55	24.36	938	7,604
Sep	24.69	+0.14	24.72	24.57	396	3,831
Oct	24.86	+0.13	24.87	24.78	241	3,010
Total					24,471	91,362

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	228.2	+1.6	229.0	227.0	6,733	3,601
May	231.6	+1.5	232.5	230.1	15,913	38,664
Jul	234.7	+1.4	235.8	234.0	7,631	23,119
Aug	235.3	+1.3	235.9	234.8	222	5,480
Sep	234.8	+1.4	235.0	234.0	589	3,478
Oct	231.5	+1.9	231.8	230.6	632	2,963
Total					33,843	85,768

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	200.0	-	-	-	-	-
Apr	186.3	-	187.0	184.5	26	858
May	199.0	-	198.5	198.5	7	30
Jun	225.0	-	-	-	-	-
Nov	105.0	-	-	-	-	-
Total					33	980

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1423	+15	1420	1400	249	805
Apr	1440	+25	1440	1410	52	1,243
May	1410	-	1415	1395	67	281
Jul	1310	+15	1314	1295	200	1,719
Oct	1343	+5	-	-	-	628
Jan	1375	+12	-	-	-	52
Total					588	1,347

	Close	Prev
BFI	1347	1347

FUTURES DATA
All futures data supplied by CMS.

Nuts and Seeds
Prices from Kenkko Group: US$ a tonne. Iranian pistachios 28/30 raw (in shell) naturally opened (round); 1995 crop 3,400 CFR/FOT MEP, 26/28 3,500 CFR/FOT MEP – roasted and salted 28/30 at 3,900 ex-Hamburg, vacuum pack. US almonds (shelled) 23/25 NPS 1995 crop at 6,100 - market still very unstable. US walnuts LHP 20% - 6,060 FAS California. Indian cashews raw: 1995 crop, W-320, 5,850 spot Europe; 5,625 CFR MEP March-April; W-240 6,100 spot Europe; 5,850 CFR MEP March-April. Turkish hazelnut kernels, 13/15 standard 1s, 1995 crop at 2,400 CFR MEP, stable. Russian snow white pumpkin seeds: 1995 crop, long, grade A, at 2,050 FCA MEP; round, 2,450 FCA MEP. Turkish apricots size 4: 2,100 CFR MEP. Chinese grade A pine kernels, 1995 crop at 5,300, spot UK or 4,500 CFR from origin.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	881	+12	877	871	32	151
May	903	+8	904	890	2,514	27,906
Jul	926	+7	926	917	1,238	16,474
Sep	945	+6	945	937	840	39,208
Dec	962	+5	965	956	624	16,790
Mar	981	+5	983	973	1,072	35,181
Total					6,404	182,335

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1219	+6	1234	1228	12	189
May	1235	+5	1260	1234	4,443	39,284
Jul	1259	+4	1272	1257	1,750	20,731
Sep	1281	+3	1294	1280	311	11,817
Dec	1315	+2	1327	1316	148	13,048
Mar	1342	+2	-	1340	30	7,510
Total					6,691	98,621

■ COCOA (ICCO) (SDR's/tonne)

Mar 6	Price	Prev. day
Daily	909.95	912.83

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1975	-25	2030	1965	553	3,606
May	1829	-5	1853	1820	2,084	12,501
Jul	1780	+1	1788	1760	1,009	4,415
Sep	1734	+1	1750	1730	293	2,956
Nov	1710	+4	1724	1705	81	1,233
Jan	1693	+8	1710	1710	1	263
Total					4,087	25,209

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	115.00	-1.10	117.25	115.40	148	1,062
May	113.00	-1.20	114.50	112.25	5,599	15,367
Jul	111.50	-1.50	112.70	111.00	483	4,280
Sep	110.55	-1.10	111.60	110.00	85	3,203
Dec	109.45	-1.05	110.25	109.00	84	1,379
Mar	108.05	-2.05	108.75	108.00	1	412
Total					6,400	25,691

■ COFFEE (ICO) (US cents/pound)

Mar 5	Price	Prev. day
Comp. daily	104.34	102.89
15 day average	107.85	108.60

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.90	-	-	-	-	-
May	11.90	-	-	-	-	-
Jul	11.00	-	-	-	-	-
Total					-	-

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	377.7	-	378.0	376.4	655	13,935
Aug	358.3	+0.1	358.0	357.5	108	7,306
Oct	323.4	+0.5	323.0	322.5	90	4,883
Dec	314.1	+0.5	315.0	313.0	12	2,568
Mar	309.7	+0.5	309.0	309.0	1	730
May	308.9	+0.2	-	-	-	534
Total					756	29,896

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	11.73	+0.01	11.77	11.68	6,575	61,582
Jul	10.86	-0.01	10.87	10.83	3,216	36,036
Oct	10.50	-0.01	10.51	10.47	1,289	27,657
Mar	10.21	-0.03	10.23	10.20	117	14,227
May	10.13	-0.05	10.15	10.13	5	3,484
Jul	9.97	-0.03	9.99	9.97	27	1,310
Total					11,229	144,894

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	82.37	+1.17	82.40	81.50	23	172
May	83.25	+0.87	83.35	82.30	5,929	21,835
Jul	83.78	+0.81	83.90	82.91	2,425	11,207
Oct	81.50	+0.25	81.50	81.14	73	2,358
Dec	80.03	+0.08	80.16	79.87	963	17,020
Mar	80.83	-	80.90	80.80	30	1,592
Total					9,441	58,836

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	131.75	+1.05	131.75	130.30	180	309
May	129.45	+2.00	129.50	127.50	920	12,186
Jul	127.95	+1.55	128.00	126.60	226	2,387
Sep	126.15	+1.55	126.15	124.80	24	1,006
Nov	122.50	+0.70	122.50	122.20	16	667
Jan	122.00	+0.50	122.00	121.50	2	2,418
Total					1,368	28,793

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Mar 6	Mar 5	month ago	year ago
2122.7	2129.2	2148.3	2325.9

■ CRB Futures (Base: 1967=100)

Mar 5	Mar 4	month ago	year ago
243.15	243.61	246.61	233.07

■ GSCI Spot (Base: 1970=100)

Mar 5	Mar 4	month ago	year ago
194.90	195.15	189.50	176.58

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	62.125	-1.125	63.050	62.025	9,170	33,465
Jun	62.950	-0.450	63.300	62.725	5,625	24,891
Aug	62.025	-0.225	62.250	61.800	1,632	12,274
Oct	63.075	-0.350	63.400	62.975	674	10,436
Dec	62.125	-0.250	62.300	62.075	446	6,561
Feb	62.200	-0.200	62.525	62.200	287	2,847
Total					18,056	89,742

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	48.500	+0.225	48.650	47.975	2,786	12,852
Jun	53.450	+0.125	53.775	52.925	2,762	12,416
Jul	51.600	+0.175	51.725	51.150	536	3,163
Aug	49.500	+0.075	49.600	49.000	439	4,071
Oct	45.725	+0.100	45.800	45.400	313	2,610
Dec	46.700	-0.100	46.950	46.525	177	1,603
Total					7,019	37,456

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Mar	66.475	-	67.300	65.600	832	1,476
May	66.675	+0.125	67.650	65.775	1,762	6,263
Jul	63.525	+0.300	64.250	62.600	304	2,039
Aug	59.050	-0.275	60.475	58.900	70	487
Feb	63.800	-0.700	65.000	63.800	12	27
Mar	63.500	-0.500	64.000	63.600	2	4
Total					2,982	10,296

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1500	125	149	11	23
1600	68	86	42	56
1700	19	44	103	110
■ COPPER (Grade A) LME	**Jun**	**Sep**	**Jun**	**Sep**
2400	144	118	23	70
2500	80	72	58	120
2600	36	40	114	185
■ COFFEE LCE	**May**	**Jul**	**May**	**Jul**
1850	96	116	107	197
1900	67	100	138	231
1950	52	87	173	268
■ COCOA LCE	**May**	**Jul**	**May**	**Jul**
875	39	72	11	21
900	24	56	21	30
925	14	43	36	42
■ BRENT CRUDE IPE	**Apr**	**May**	**Apr**	**May**
1700	-	69	1	56
1750	49	53	8	69
1800	32	34	22	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$16.77-6.87w	+0.51
Brent Blend (dated)	$19.14-9.16	+0.50
Brent Blend (Apr)	$18.18-8.21	+0.495
W.T.I.	$20.00-0.04w	+0.645

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$185-186	+1
Gas Oil	$172-174	+3
Heavy Fuel Oil	$100-101	+1
Naphtha	$169-171	+2
Jet fuel	$200-202	-3
Diesel	$174-176	+3

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

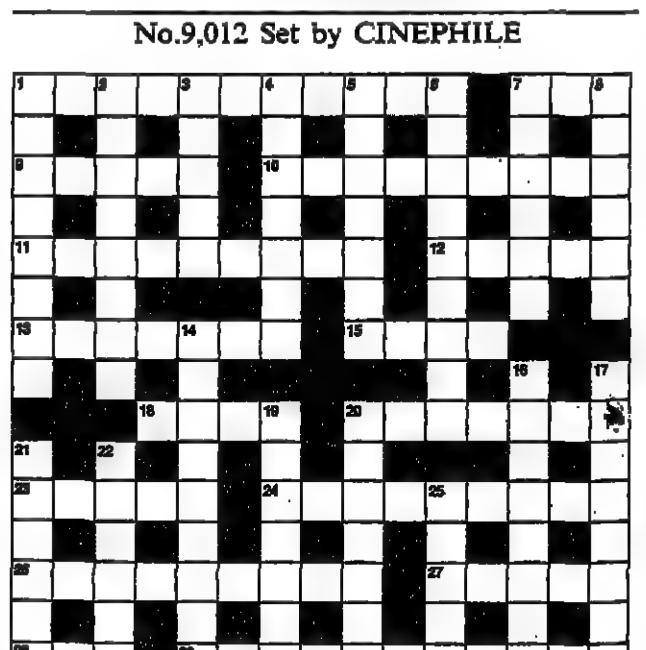
Gold (per troy oz)♣	$393.75	+0.45
Silver (per troy oz)♣	538.5c	+2.0
Platinum (per troy oz.)	$406.75	+1.50
Palladium (per troy oz.)	$133.75	+1.50
Copper	122.0c	
Lead (US prod.)	41.75c	
Tin (Kuala Lumpur)	15.68m	-0.04
Tin (New York)	287.50c	-1.00
Cattle (live weight)†	117.45	-1.16*
Sheep (live weight)†♠	132.71	+0.32*
Pigs (live weight)†	104.79	+1.58*
Lon. day sugar (raw)	$311.1	-1.3
Lon. day sugar (wte)	$395.5	-0.5
Barley (Eng. feed)	113.5	
Maize (US No3 Yellow)	146.5z	-4.0
Wheat (US Dark North)	Unq.	
Rubber (Apr)♥	108.50p	-1.00
Rubber (May)♥	108.50p	-1.00
Rubber (KL RSS No1)	407.50m	-2.00
Coconut Oil (Phil)§	$730.0v	-10.0
Palm Oil (Malay.)§	$507.5u	
Copra (Phil)§	470.0v	
Soyabeans (US)	206.0u	-2.0
Cotton Outlook'A' index	82.50	-0.20
Wooltops (64s Super)	438p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. u Mar.♥ w Apr. y Feb/Mar. v Apr/May London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week †Prices are for previous week.

JOTTER PAD

CROSSWORD

No.9,012 Set by CINEPHILE



D has the same meaning wherever it occurs in the clues

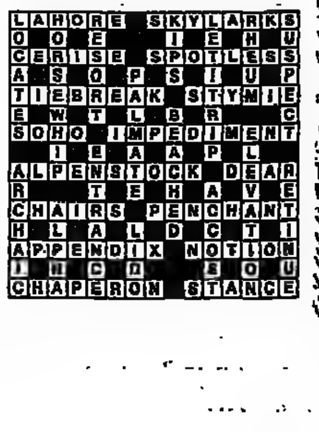
ACROSS

1 German D in science: dangerous? It's revolutionary (11)
7 Bag which gets red when holy (3)
9 Repeat performance with engineer to manage (5)
10 Iron at tip used on screen? (9)
11 Secondary effect obtained through expert channel (2-7)
12 D to an unusual degree (5)
13 Shuteye for worker with good chance of success (3,4)
15 Cat and dog take part of D back (4)
18 Obstruct movement of D? (4)
20 Gallery where fate comes to religious broadcasting? (3,4)
23 A light on the side of the ship (5)
24 City gent, a stable worker, for £1 genuinely human (9)
26 Romance at home with carol singer? Hide till one comes (3,2,4)
27 D with adjacent notes of music (5)
28 D (PM) in definite article (3)
29 Unknown quantity in core melted strangely at absolute zero? (7,4)

DOWN

1 D for Middle Easterner in desert (8)
2 D for two instruments (8)
3 D to go brown on leave (5)
4 Confiscate £1,000 (7)
5 Piece of advice after Irish port at end of cigarette (4,3)
6 Left the country because sound of TV award was annoying (9)
7 Second male setter's D (6)
8 D of double potential (6)
14 German D makes wrong lead when interrupted by old flame .... (9)
16 .... who leads sergeant a D (8)
17 Ordinary banner (8)
19 Like a member in service, attentive to women (7)
20 D over the top, without being presented (7)
21 D entirely in speculation (6)
22 D in love let anger subside (6)
25 Roman leader, somewhat eccentric, to be a scout (5)

Solution 9,011



FRANCHISING

Demand is increasing

There are signs that established large businesses are increasingly adopting the franchise formula, writes **Richard Gourlay**

Twenty-five years after the first franchise was established in the UK, the idea of taking someone else's tried and tested idea and turning it into a business is once again appealing to a large number of people.

The recession, which might have knocked the confidence of franchisees, has if anything strengthened the appeal. While small stand-alone businesses were suffering from loss of consumer confidence, there was something to be said for running a business with a well-established name.

Now, with the recession receding, the demand for franchises is again increasing. According to the latest study for the British Franchise Association by NatWest Bank, business format franchises account for 3.7 per cent of retail sales in the UK, up from 3.6 per cent last year.

This is still some way behind the US where franchising accounts for 12 per cent of retail sales. But it is a ringing endorsement for an approach that clearly attracts self-starting individuals who, in spite of a desire to run their own company, are not prepared to take the greater risk of going it alone.

From the point of view of franchisors who want to grow their companies, franchising remains an attractive option, reducing the need for capital and taking a product or service quickly to a wide market.

Indeed there are signs that established large businesses are increasingly adopting the franchise formula. Compass, the catering company, for example, now runs a chain of Burger King franchises in leisure centres, railway stations and airports.

Some companies, such as Early Learning Centre owned by John Menzies, which have not considered franchising in the UK, are now exporting their business format through franchises across the world.

Mr Manzoor Ishani, senior partner at Mundays, the franchising solicitors, says he has helped companies export their business format through franchises to 22 countries in the past two years.

Established businesses, in the UK and the US, are also showing more interest in area development agreements, through which they grant entrepreneurial franchisees the opportunity to roll out the brand in a given area either as a master franchisee or as the owner of a local chain of owned outlets.

Highly developed in the US, this approach accelerates the pace at which a format can be spread. But it is under-utilised in the UK, according to Mr Steve Spinelli, a franchisee who built and then sold a chain of 47 Jiffy Lube car care outlets in the Eastern US and is now associate professor at Babson College, Boston.

While multi-franchise development might have significant potential, much of the growth in franchising is likely to come from individual operators for some time. The demand is certainly there.

The BFA NatWest's survey shows there were 474 business format franchises at the end of 1995, up from 414 last year, supporting 25,700 franchisees. These outlets employed 222,700 people, up from 192,300 the previous year, and had sales of £5.9bn, up from £5.5bn.

But the figures also show that the independent franchisees still dominate, accounting for 83 per cent of all franchises. Only 18 per cent of franchisees operated more than one outlet.

While franchising in the UK is still a long way behind the US, it has penetrated the large economies in continental Europe to about the same extent. Germany and France have 500 and 450 business format franchises respectively supporting 20,000 and 25,700 franchisees.

British banks have also recognised the opportunities for pushing franchised businesses into the emerging countries of eastern Europe. NatWest is due to help accelerate the spread of franchises in Poland and Moscow in the spring

In the UK, the most popular business format remains business services such as Prontaprint and Kall Kwik, which account for 18 per cent of all franchises.

Food franchising, property care, home care services, walk-in retailers and motorist services each account for 8-9 per cent of franchises, according to research from the University of Westminster. These formats remain attractive for enduring reasons. Many people see running a franchise as an attractive half-way house. It provides more freedom to exercise an entrepreneurial flair than is frequently available within a large company. For middle ranking and junior executives who have perhaps been made redundant, franchising also remains a popular way to put to use skills developed over many years.

More recently, franchising has become more attractive as security of employment within large organisations is seen as being less certain. While there is an element of what has been called "buying a job", franchising also avoids the kinds of risks associated with setting up a business from scratch. And there is the added attraction that most banks will provide more finance for franchise operations than they would for a stand-alone start-up. For example, the Royal Bank of Scotland, one of the four leading banks that specialise in franchise financing, will provide up to 70 per cent of a franchise investment. Its limit for a stand-alone business is more likely to be 50 per cent of a start-up project's costs.

The banks' willingness to lend is crucial to the development of franchises. But so is the increased willingness of potential franchisees to borrow. Mr Gordon Irvine, director of Barnacles, a Middlesbrough-based fish and chip shop who is now interviewing potential franchisees, was ready to expand through franchisees three years ago. But franchisees, most of whom would have needed to borrow, were not willing to take on the risk of a franchise.

Mr Irvine put the franchise plan on the back burner and sold equity to 3i, the UK investor in private companies, in order to expand the owned chain to three. Now he is ready to try the franchise route again. "Three years ago many franchisees had negative equity," says Mr Irvine. "Now there are more encouraging signs. There is a feeling that the economy is moving in the right direction."

This growth in interest is confirmed by Ms Julie Waites, director of the Franchise Company, a consultancy in Stockton-on-Tees that advises franchisors and franchisees. "I think the confidence is returning," says Waites. "People who put things on hold are wanting to expand again."

Many potential franchisees will be encouraged that there have been few failures among franchisors in the past two years in spite of the recession.

Some franchisors are also smoothing the path for the right franchisees who they can see may have had a tough time during the recession. Mr Graham Rose, head of franchising at the Royal Bank of Scotland, says some franchisors are introducing new types of franchise agreements with lower-than-normal start-up costs and delayed subsequent payments.

Set against this promising picture is the continuing need to clean up the image of the industry. While some franchisees do not pay enough attention to the detail of their franchise agreements before signing up, it is equally true that there are still unscrupulous fly-by-nights selling untested business format franchises or mistreating their franchisees, damaging the image of the whole industry.

It does not help that there is no legislation covering the behaviour of franchisors, only a code of conduct administered by the BFA. In the US, by comparison, the relationship between franchisor and franchisee is minutely defined by Uniform Franchise Offering Circulars (Ufocs). And as from January, Federal Trade Commission guidelines have also required franchisors to write these Ufocs in "plain English" and to cut the legalese which obscures many agreements.

Whether legislation is needed or not is the subject of heated debate. But Mr Graham Rose, head of franchising at the Royal Bank of Scotland, says he expects the industry will be covered by legislation within a decade. Meanwhile, the BFA attempts to enforce a code of practice and claims that the sometimes highly-publicised cases of clashes between franchisor and franchisee are few and far between.

The BFA's best advice for potential franchisees remains, however, to take great care before signing up and to talk to a number of franchisees already operating within the chosen business format.

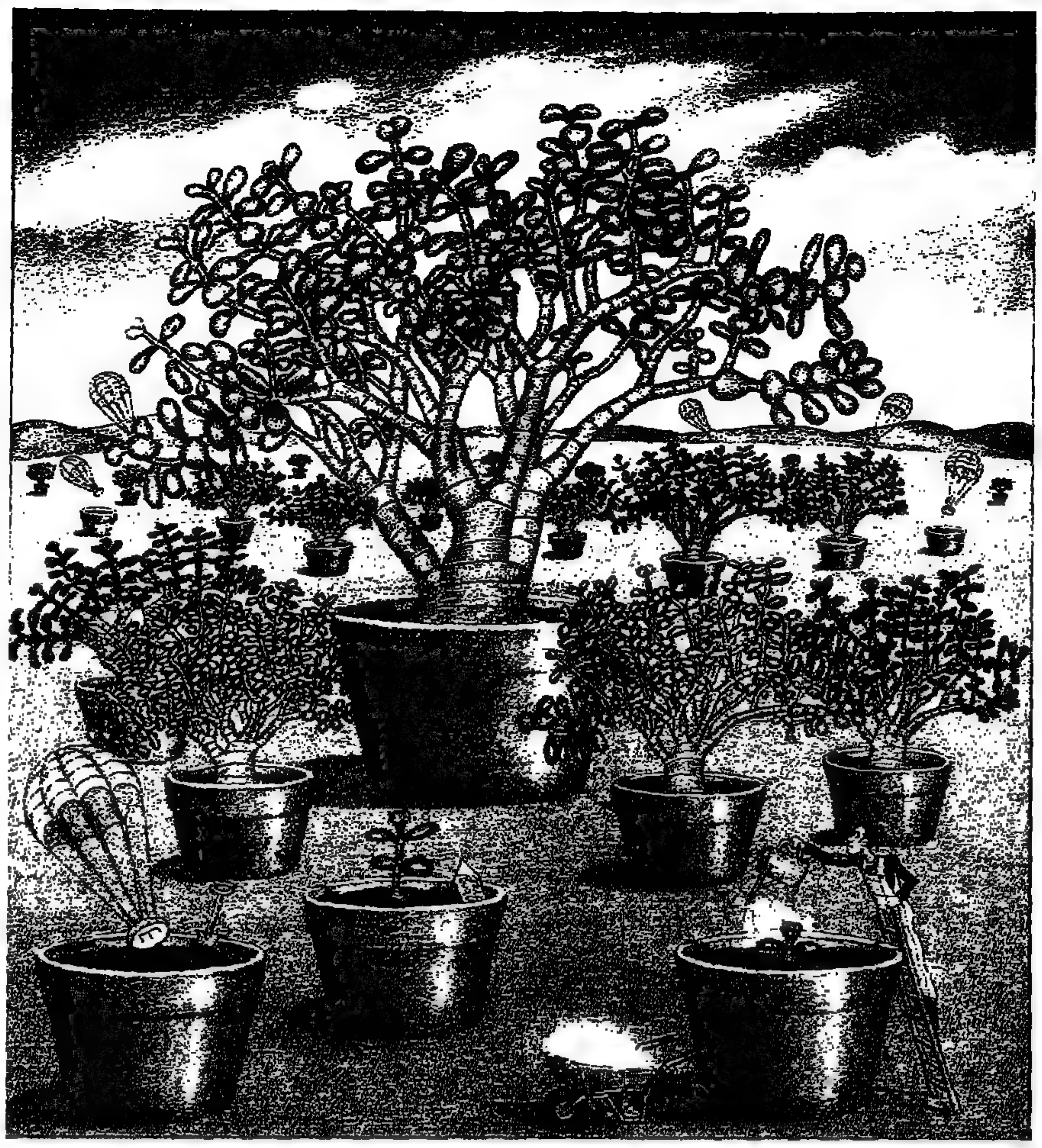
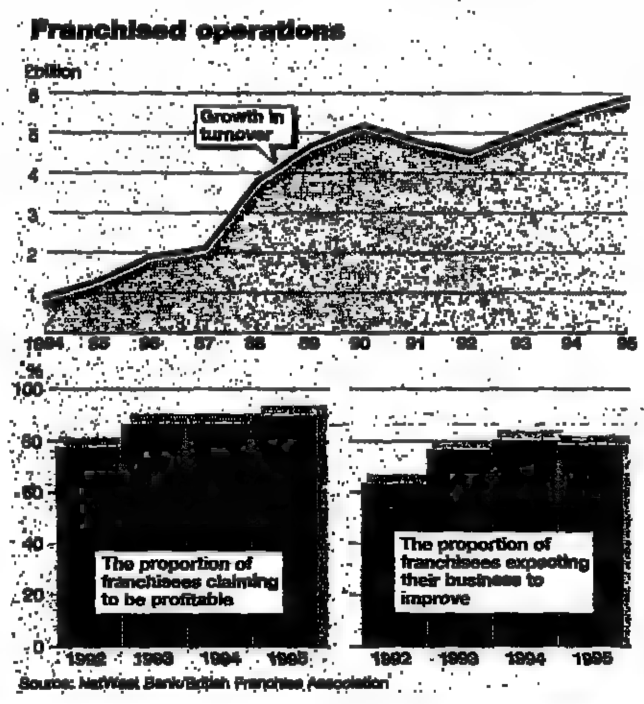
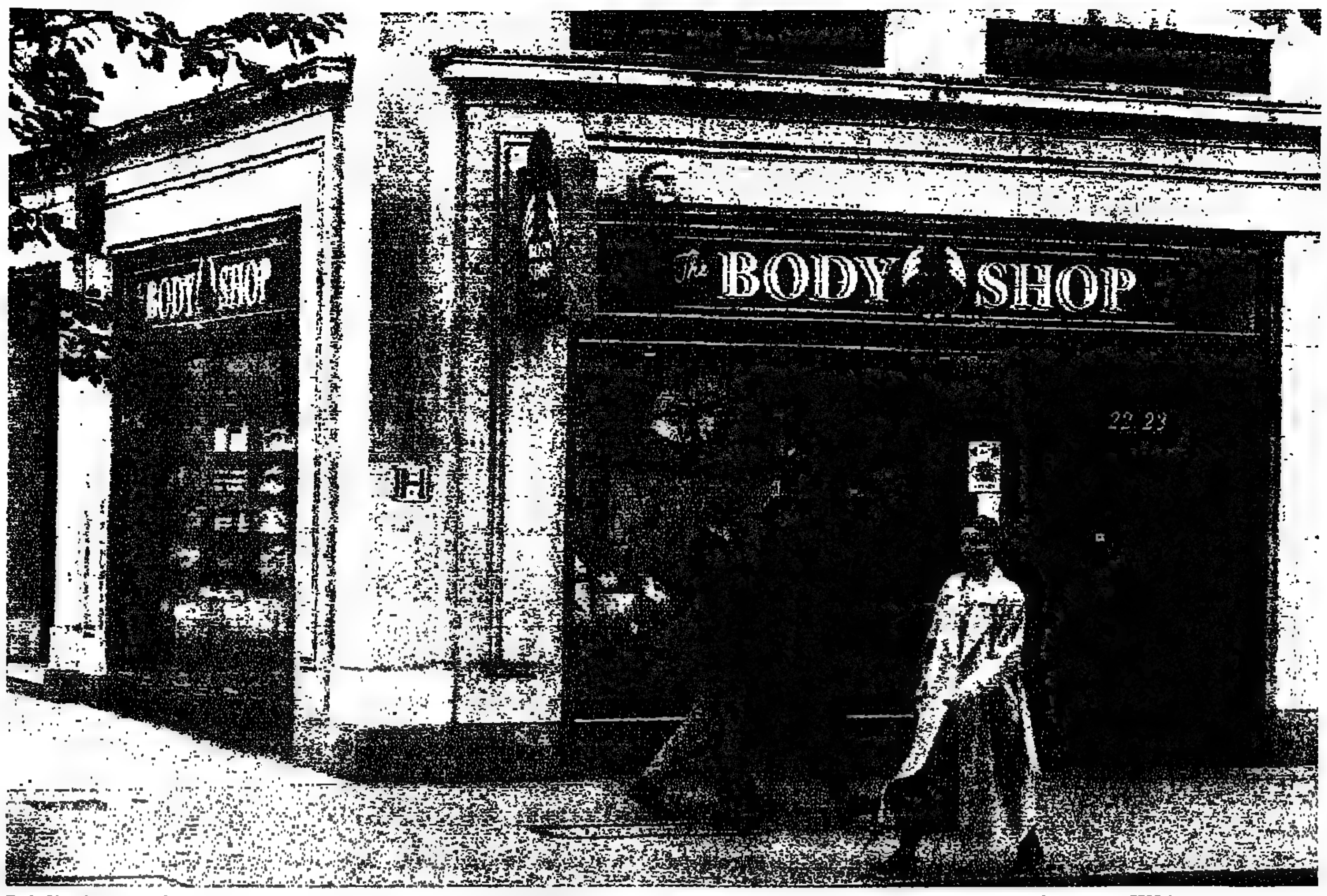


Illustration: Caroline Thomson

Franchised operations



Source: NatWest Bank/British Franchise Association



Body Shop has 253 outlets in the UK and a turnover last year of £219.7m. Total retail sales through its stores – which are mainly franchises – were up 16 per cent at £500.1m *Picture: Trevor Humphries*

CASE STUDY Body Shop

Oblique approach to business

One of the best-known, successful and long-running UK franchise enterprises, The Body Shop, is a maverick business.

Started by Anita Roddick and her husband Gordon at the peak of the hippy mid-1970s, it has always been motivated more by principles – community, mutual aid, environmental preservation – than commerce.

Even today, 20 years after the first tiny shop in Brighton began selling home-made toiletries, the couple would rather discuss the soul of their campaigns than the bottom line in their accounts.

Such an oblique approach to business has been no barrier to commercial success. Body Shop is far from a fringe player in the toiletries, personal and home care sectors with 253 outlets in the UK, a presence in 45 international markets and a turnover last year of £219.7m. Total retail sales through its stores – which are mainly franchises – was up 16 per cent at £500.1m.

The choice of franchising as the route to expansion seems to have been an important factor in this success, even if it was more a hope born of necessity than a well-founded strategy at the beginning.

Not long after Mrs and Mrs Roddick began selling their products in 1976 it became clear that they would not be able to meet demand from a single outlet.

There was no spare capital for expansion and too little track record to persuade bankers to reach into their pockets.

Although neither had heard of "franchising", the pair began to dream that other people might want to sell their products.

They began to seek out small shopkeepers with a leaning towards green issues and a willingness to market the Roddicks' products according to an identical format laid down by The Body Shop and rigorously monitored.

The rest is history – or, as Mr Peter Griffin, managing director of the UK retail operation puts it: "For a combined manufacturer and retailer the numbers stack up well. It has seen us through all the different cycles of our growth. Franchising is still the strategy we believe in, now and for the future."

Body Shop's approach to selecting franchisees has changed a little along the way, but not too much. Initially, the Roddicks looked for individuals with personality and charisma.

Experience has taught them that commitment, a basic business sense, initiative and the willingness to try something new are as important as passion.

Yet passion is still foremost. Body Shop still rejects the concept of licensing (a popular alternative to franchising) because "ultimately it is only a commercial relationship," says Mr Griffin. The word "community" is the most powerful totem in the company.

Mr Griffin says: "Franchising only works if you sit down round the table and hold hands with the

Anita Roddick: initially, she looked for individuals with charisma

franchisees. Then you create a community. Franchising is the spirit which makes the company an international family."

Before that point arrives, would-be franchisees are closely quizzed about why they want a franchise; why they want a Body Shop franchise; what they expect by way of return; their past retailing experience; and a detailed business plan, including survival tactics while the business builds up or if things go wrong.

In return, they are told precisely what they can expect by way of support from head office and the entry costs (typically a £10,000 joining fee which covers shop-opening support and perhaps £100,000 for fitting out and initial stock. Beyond that, there is an annual management charge of 2 per cent of turnover).

Support includes a variety of courses provided by a dedicated team of trainers plus help from a team of business development managers on how to prepare business plans and initiate annual business

> Do not expect the UK business to go meekly into placid middle age

reviews to ensure they are keeping to their strategies. "We don't want to reject franchisees; we want to introduce skills where these are lacking," says Mr Griffin.

Franchisees will only be thrown back if they show total financial incompetence or – the ultimate sin – paint their shelves pink.

The selection process and the continuing support, which includes a proselytising weekly video from head office which some might think bossy, obviously works. In the three years Mr Griffin has been with the group, only three of the 100 UK franchisees have quit or been asked to leave.

But what happens when a franchise operation is close to saturation? At present, Body Shop has 253 outlets in the UK, 49 of them company-owned centres for experiments and trial strategies. The optimum number is thought to be about 300. Mr Griffin acknowledges that new openings will slow to perhaps only about 10 a year.

Internationally, horizons are still unbounded. But do not expect the UK business to go meekly into placid middle age. The board plans "very shortly" to launch its secret weapon: an army of party givers (on Tupperware lines) supporting their local franchisees. They would buy goods from the local shop at a 25 per cent discount (effectively their commission), sell them to their friends at coffee mornings and persuade the friends to buy repeats at the shop.

Mr Griffin is enthusiastic about the success of his "home selling trials" which are now coming to an end. "We could have up to 10 hostesses supporting every franchisee," he says. "It would be a marvellous way to boost organic growth." And expand the community, of course.

Christine Moir

CASE STUDY Humana International

A different breed

It is one thing to train a person to sell a doughnut – and quite another training someone to help people make the biggest decision of their lives after a mortgage and children.

That is broadly how Mr Doug Bugie, the American partner of Humana International, sums up the difference between business services franchising and the more familiar variety found on the high street.

The comment underlines the difference in emphasis and rationale for a non-retailer to take the franchising route.

Humana is a headhunter – or an executive search and selection company as it is known in the trade. It operates within one of the fastest-growing industries in the UK. Mr David Head, who edits the industry trade journal Recruitment International, says there are an estimated 9,500 companies in the UK of which almost half are within the M25 cordon.

They help some six million contract workers – a third of the workforce. Franchising operations are a small proportion of the industry but are beginning to take off. "Already this year we have been approached by five new recruitment franchisors. The growth of some of these companies has been very good."

Founded four years ago by Mr Bugie, the former marketing director of Management Recruiters International of the US, and Mr James Caan, chairman of Alexander Mann Associates, Humana has a network turnover of about £14m and expects revenue to rise to between £45m and £50m over the next three to five years, assuming there is no big recession in the wings.

The company is about as pared down as you can get. At its head office just behind the Inns of Court, between the City of London and the West End, are the two directors and four field trainers who tour the franchised outlets. There are also three operations support staff who answer the burning questions of the moment from franchisees, and there are three secretaries. Then there are the franchise outlets – 65 in all, in February. They vary depending on how long they have been established and how successful they are. But they tend to consist of the franchisee, two recruiters and an administrator.

What the franchisor offers is basically a launchpad for executives wanting to use their knowledge of a particular industry in order to start their own company.

"We provide a 30-day intensive training programme to teach people to be search consultants, as well as to attract and develop a team," says Mr Bugie. "We don't claim to offer a magic wand but we provide parameters. For instance we

Doug Bugie: 'We want the owner to lead from the front'

advise on what the office should look like. We encourage an open plan office as we want the owner to lead from the front."

What the franchisees provide is principally cash and willpower. They pay a start-up fee of £20,000 which covers the initial intensive training and Humana recommends they have another £20,000 to give the new business between three and five months of operating time. Finally, they pay a 10 per cent royalty of which 1 percentage point is ploughed back into advertising.

They charge between 25 and 30 per cent of the first year's earnings of the people they place.

Targeting and selection of franchisees often starts with a meeting at one of the five franchising shows held in the UK every year. Humana also gets referrals from existing members who introduce job seekers as potential candidates. And finally, it advertises in the relevant media.

"We see 15 to 20 people a month but expansion rates are very steady – two offices a month. We don't pretend this is the right business for everyone. We do what I call negative selling. We tell people what it is about and if they're not drawn to it, they don't go on," says Mr Bugie.

Although the profile of the company's members varies enormously, it identifies the hard average almost down to the colour of the candidate's eyebrows.

The average franchisee is aged about 42, predominantly male and professional. He probably has a couple of children in school plus a mortgage and two cars.

One big question is why these executives, with years of experience within an industry, should not just go it alone.

As with all franchises, the candidates have greater security but also a contractual tie which lasts for 10 years and guarantees training and support for them while protecting the trademark licence and intellectual property of the company. Secondly, they benefit from an element of cross-pollination through the network for executive placements. And thirdly, there is an onus on the company to maintain a level of training support. "If we don't add value we are going to have a tough time. If our training is not making them better, grumbling can occur," says Mr Bugie.

For Humana, the choice of franchising means faster expansion to offset the lower returns. It also minimises the responsibilities and pressures of leasing cars or acquiring other types of equipment.

It also attracts a different breed of people. "Finding highly motivated individuals is what drives the business world and you get that with franchising. It is harder to get that with employees which is what you have if you choose the capital investment route," says Mr Bugie.

Peter John

CASE STUDY · Kall Kwik

Experience was 'bitter-sweet'

Alistair Mackintosh describes his seven years as a franchisee as "a bitter-sweet experience". He concedes: "I wouldn't be in business without it. I'd have made mistakes." On the other hand, he describes a franchise as "the training wheels bolted onto a bike. After a while you don't need it."

It is clear that he has at times wanted to end the relationship, although not at present – the business is doing too well. Moreover, there is the disincentive of losing the franchisor's name, which by definition is likely to be better known than your own.

"A franchise is a good relationship for about five years. After that all the franchisor offers you is the banner and whatever he invests in research and development."

On both counts, Mr Mackintosh's franchisor has done him some service. The "banner" of Kall Kwik, the chain of fast printing outlets, is one of the best known in the high street. Its research and development department has already come up with ideas which have led him to upgrade his facilities twice, the first time at a cost of £7,000, the second at £10,000.

Mr Mackintosh's own willingness to act on Kall Kwik's suggestions may explain why he was the best-performing Scottish outlet in January.

Printing may seem an odd diversion for an engineer such as Mr Mackintosh. Even after seven years he does not regard himself as a printer.

But printing was never the point. After 22 years of globe trotting wherever the Babcock group was building a new nuclear or conventional power station, he wanted to spend more time with his growing family.

While taking an Open University foundation course in science and technology he began to muse about the classic option – a country pub. But it soon dawned on him that he lacked any background in business. He needed to seek help.

First stop was his Local Enterprise Company which advised him to obtain a copy of the British Franchise Association manual. Armed with that guide to best practice and what ought to be in a franchise contract, Mr Mackintosh began a slow trawl through the possibilities.

Kall Kwik met all the standards required by the BFA but nonetheless there were still some surprises. One which clearly rankles involved an insurance claim. After his shop was flooded, Mr Mackintosh claimed on his insurance only to discover that Kall Kwik was entitled to 10 per cent of the pay-out which it classified as income.

Lack of basic financial knowledge is common to most franchisees when they start. But help is at hand through Training and Enterprise Councils (Tecs) and Lecs (their Scottish counterparts). Accountants Pannell Kerr Forster, for example, have a 51 per cent-owned specialist franchising consultancy which runs two-day Franchisee Learning Programmes at Lecs and Tecs throughout the country.

Attendance on these courses is particularly high for the talk on "what happens if things go wrong" but the focus is on working with the franchisor to prevent this happening. During the course would-be franchisees also meet a banker and solicitor with franchise experience and are encouraged to air any problems.

Mr Mackintosh would have valued guidance on setting up pension arrangements. He would also have appreciated a chat with an experienced franchisee and an established franchisor – both available to those who attend Franchisee Learning Programme courses.

The British Franchise Association is another source of information and support. Apart from its membership of accredited franchisors it also maintains a database of solicitors with franchise experience to whom it can direct franchisees before they sign poorly drafted contracts.

Christine Moir

Kall Kwik's research and development department has already come up with ideas which have led Mr Mackintosh to upgrade his facilities twice

■ The Franchisee: by Christine Moir

Watch out for cowboys

Franchisees must subject the contract to the most minute scrutiny; it is the only constraint on the franchisor

It is a common misconception that individuals who buy franchises do so with their redundancy money as a last desperate attempt to avoid the scrap heap. The figures do not bear this out.

Mr Peter Stern, head of franchising at National Westminster Bank, says that databanks show that only 30 per cent of franchisees are the newly redundant; 40 per cent are already self-employed, the remainder in paid employment.

Few franchises can be bought with average redundancy payments. According to Mr Stern, retail-based franchises cost between £70,000 and £120,000 to launch. While vehicle-based operations may be more affordable – at between £10,000 and £30,000, fast food outlets cost up to £750,000. On average, franchises cost £45,000 apiece, not allowing for the cost of income support until the business builds up.

Finding finance is not as easy as it might be. The high street banks and 3i are the most likely sources, but can jib at the complete lack of track record of a new franchisee. Venture capital specialists are mainly interested in more complex, multiple-site franchises. The government's Small Firms Loan Guarantee Scheme is there to be exploited but there have been many complaints about how hard it is to unlock.

Given that 90 per cent of all franchises are profitable and that 79 per cent of all franchisees expect profits in 1996 – as confirmed by the annual NatWest-British Franchise Association survey, carried out each March – the City of London's less-than-enthusiastic support for franchising does not look well-founded.

It is also in marked contrast to the US. Perhaps things are about to change. In the US, franchises account for a third of all retail turnover. In the UK, franchises account for just 3.5 per cent or £5.5bn of retail turnover, but the end of the recession is beginning to fuel an accelerated pace of franchise creation. Increased familiarity with the concept is also spreading it into new sectors; your local milkman, once a Unigate employee, may be a new franchisee as milk companies look for ways of competing with supermarkets on price.

Pam Bader chairs the BFA and is chief executive of Molly Maid

As franchising expands, would-be franchisees must watch out for cowboys. "Due diligence" is the motto. Franchisors are in the business to increase their return on capital; for some that may come at the expense of necessary support for franchisees. The devil is in the detail of the franchise contract. Franchisees must subject it to the most minute scrutiny; it is the only constraint on the franchisor.

Potential franchisees have a number of reliable independent sources of support, if they only know to turn to them. Training and Enterprise Councils (or Lecs, their Scottish counterparts) can frequently put novice entrepreneurs in touch with solicitors, free of charge. And, with a franchise costing upwards of £50,000, it must be worth investing in an hour's time with an accountant and a banker experienced in the sector. A franchisor with a minimal track record or a patchy credit rating is one to avoid.

Another useful source is the the British Franchise Association in Henley on Thames which now numbers more than 100 franchisors and sees the establishment of voluntary ethical standards as its prime focus.

Pam Bader, who chairs the BFA – and is chief executive of contract cleaning franchise Molly Maid – says bluntly: "We wanted to put a distance between us and the cowboys."

Members must be accredited, a procedure which involves affiliation before final membership. And before they become members, applicants will have satisfied the association that they can meet the standards for contracts and support systems laid down in the BFA manual.

Would-be franchisees can obtain copies of the manual and the membership list from the BFA; the £30 cost is a valuable insurance premium. The BFA also maintains a list of professional advisers which it is willing to recommend.

None of these sources excuse the franchisee from personal responsibility. But the area where the would-be entrepreneur may feel most alone is in selecting a promising franchisor. Three trade magazines service the sector and some six exhibitions are held during the year. A number of national newspapers also carry advertisements under a franchise banner. While these are valuable primary sources, potential franchisees should not duck the direct approach to companies, especially where cross-border franchises are feasible. It is little known, but even Marks and Spencer uses franchises as part of its European expansion strategy.

It is no coincidence that franchising has flourished in the US where there is a huge collection of diverse markets. Harnessing the entrepreneurial talents of individuals with local market insight has become similarly vital in Europe with the creation of the single market. Franchisees who can offer local expertise to groups with pan-European ambitions should find themselves at a premium.

Until the recession took hold, the main direction for expansion was into the UK – primarily from the US, but also from Europe. That slowed dramatically in the early 1990s, but now shows signs of picking up again. Meanwhile, franchising in the UK has reached a level of maturity which has encouraged local franchisors to look overseas.

Franchisees should not fool themselves, however. If it is important to know how to carry out a local franchise, the same is even more true in a different country. Not only will the franchisor soon find out if you do not have the local market skills you claim, but the contract may prove more difficult to quit under continental European rules.

For franchisees, the two most important caveats are first: Is this the franchise for me? and second: minute scrutiny of contracts under expert guidance.

CASE STUDY · Floor Coverings International

Expansive in his praise

"If someone had told me 15 months ago that I would be laying carpets for a living, I'd just have laughed at them," says Mr John Allan.

An engineer by training, the Glaswegian's entire career had been with BT as a manager. After 33 years, however, the constant travelling had palled and Mr Allan thought he would like to set up in a business for himself, working from home.

A BT voluntary early retirement package provided the opportunity. Next step was to build a relationship with the Local Enterprise Company, because Mr Allan recognised that he lacked any commercial background.

He is expansive in his praise for the LEC. Not only did it offer a practical four-week Start Your Own Business Course, it helped him draw up a business plan and its experts continue to visit him each quarter to monitor his progress.

Even more crucially, when Mr Allan identified a franchise he would like to buy, the LEC provided access to a solicitor with franchise experience, free of charge.

The choice of franchise, however, was more of a happy accident. Mr Allan saw an advertisement by a Yorkshire company, High Quality Contracts, who had just acquired the UK and European rights to the products of Atlanta-based Floor Coverings International.

Mr Allan was among 250 who attended a presentation in Glasgow and was immediately attracted by the franchise.

With true Scots caution, however, he delayed making a decision until he had been visited twice more by a salesman, then spent an intensive fortnight in Atlanta and took a week-long course at HQC's training centre in Wetherby.

He and his LEC-supplied solicitor also "put the contract through the mincer" before he signed up to start in July last year.

The franchise itself cost him £12,500 (now increased to £14,500) plus an annual royalty payment of 5 per cent of gross turnover less VAT. There is also a 2 per cent advertising levy, half of which can be rebated if the franchisee advertises locally. Other main costs are a leased van and payments to carpet fitters, wood joiners and tilers who carry out the installations as sub contractors.

So far so good. Mr Allan's first eight months have gone smoothly. By January, he had already exceeded the business plan drawn up in June and he had developed strong links with a group of local workmen, plucked from HQC's network of sub contractors. To his surprise, he has also found himself enjoying the business of selling to householders and supervising installers.

Native Scots wariness has not deserted him, however. Mr Allan has a number of tips to pass on to would-be franchisees:

- Consider very seriously whether a particular franchise is suitable for you. What would you bring to the franchise? Would you enjoy it? Would you want to get out of bed to do it?
- Carefully study what support you will get from the franchisor. Ask other franchisees for their experience. If the franchisor seems reluctant to give you free access to other franchisees be very wary.
- Be realistic in preparing your business plan. Err on the side of pessimism.
- Watch out for cowboys. Use any professional help available to you to scrutinise contracts and check the franchisor's track record. Be particularly wary of sub contractors. Inspect their previous work, ask around in the trade, build up a relationship with a limited number of regular workmen.

Mr Allan was not able to take all his own advice. Quizzing other franchisees was out of the question.

"HQC itself had just begun operating its Floor Coverings International contract. I was something like the fifth franchisee. But it had a good record on other contracts and its head office is in the heart of carpet country," he says.

May his long-term experience be as good as his first year promises.

Christine Moir

INTERNATIONAL CAPITAL MARKETS

Europeans drift upwards on talk of rate cuts

By Samer Iskandar in London and Lisa Bransten in New York

Most European government bonds traded sideways or slightly higher yesterday, in anticipation of rate cuts by central banks. German bund traders took heart from a stronger than expected rise in the number of unemployed, while participants in the French OAT market remained on the sidelines, looking forward to today's meeting of the Monetary Policy Council.

Market players have been anticipating a series of cuts in official rates by European central banks, and many observers believe the starting signal was given yesterday in Denmark, where the central bank reduced its discount and deposit rates by 25 basis points to 3.75 per cent.

■ German bunds ended higher, after the release of data showing that the number of unemployed had reached a post-second world war record of 3.97m. Liffe's June 10-year bund future closed at 97.02, up 0.20. In the cash market, the yield on the 6 per cent 2006 bund closed at 6.30 per cent, down 3 basis points. In shorter maturities, the June 3-month Euromark future settled at 96.99, up 0.19. Traders were relieved that M3 money supply growth was confirmed at 8.4 per cent for January, after rumours earlier this week that it could be revised upwards to 10 per cent or even 12 per cent.

Analysts expect today's release of GDP data to show very weak economic activity in the final quarter of 1995. Economists at UBS in Frankfurt said GDP was now very likely to have contracted in the first quarter of this year. If this were to be confirmed, traders believe a discount rate cut would be very likely in coming weeks.

■ French government bonds traded in a range, still well-supported by expectations of rate cuts to come. The March "notionnel" contract on Matif closed at 121.96, up 0.10, and the 3-month Pibor future settled at 95.70, up 0.04, a new contract high.

Analysts believe a cut in official rates has already been priced into the market – a situation that could lead to a sell-off if the central bank fails to take action today.

Mr Vincent Chaigneau, a capital markets economist at Société Générale in Paris, finds the 10-year yield spread of OATs over bunds too tight, and expects it to widen from its current 25 basis points.

GOVERNMENT BONDS

He attributes the recent tightening to the realisation that the German economy "is not as virtuous as it was thought, in view of the size of the federal budget deficit".

■ UK gilts traded erratically all day yesterday, as dealers grew more confident that base rates would be cut soon after today's meeting between Mr Kenneth Clarke, the Chancellor of the Exchequer, and Mr Eddie George, the governor of the Bank of England. Liffe's June future on 10-year gilts closed at 107¼, up $\frac{1}{32}$. The 10-year spread of gilts over bunds widened 4 basis points to 167.

"The next [interest rate] cut is already priced into gilts," said one trader. "The question now is: when is the next one?"

■ Interest rate worries sparked by a rise in fourth quarter employment costs sent US Treasury prices lower in thin trading early yesterday.

Near midday, the benchmark 30-year Treasury was $\frac{13}{32}$ lower at $94\frac{1}{16}$ to yield 6.435 per cent. At the short end of the maturity spectrum the two-year note lost $\frac{1}{16}$ at $99\frac{31}{32}$, pushing the yield to 5.360 per cent.

Bonds began the day lower and then slid at mid-morning after the Labor department reported that non-farm employment costs had risen 3.5 per cent in the fourth quarter on the heels of the second quarter's 2.5 per cent rise.

The increase in costs was accompanied by a weakening in productivity figures. Non-farm productivity fell 0.5 per cent in the fourth quarter, partially reversing the third quarter's 1.7 per cent increase.

These figures dampened hopes that the Federal Reserve would lower interest rates at this month's meeting of its Open Market Committee, but many investors were focusing on the February employment figures due to be released tomorrow.

The stability of the dollar on foreign exchange markets provided some support to bonds yesterday. In early trading, the dollar edged higher against the D-Mark and the Japanese yen, changing hands for DM1.4775 and Y105.31 compared with DM1.4744 and Y105.24 late on Tuesday.

■ Spanish bonds recovered partly from their weakness earlier this week, but market sentiment remained bearish. The March future on 10-year Bonos closed at 94.22, up 0.12, on what seemed to be a technical correction.

In a note to investors, J.P. Morgan recommended a cut in Spanish exposure, calling the results of last Sunday's election "a major disappointment to the financial markets" and doubting the ability of a coalition government to slash the budget deficit.

■ Italian government bonds fell sharply yesterday, despite the release of encouraging inflation data. The June futures contract on 10-year BTPs, traded on Liffe, fell 0.82 to close at 109.80. It continued to lose ground in after-hours trading, and reached an intraday low of 109.62.

Heavy selling started soon after the release of data showing consumer price inflation had slowed to a rate of 5 per cent year-on-year in February, from 5.5 per cent in January. Traders said the market had been overbought in the last few days, in anticipation of a bullish figure, and so was very vulnerable to profit taking.

Romania cleared to raise capital

By Richard Lapper in London, Virginia Marsh in Budapest and Lisa Bransten in New York

Romania yesterday received credit ratings from four international agencies paving the way for the government to press ahead with capital raising plans.

Standard & Poor's, IBCA and Moody's each awarded their third highest non-investment grade rating (BB- for S&P and IBCA, Ba3 for Moody's), while the Japanese Credit Rating Agency gave a BB+ rating, the highest sub-investment grade. The ratings apply to long-term foreign currency obligations. IBCA also said it was placing Romania on "positive outlook".

Analysts said the rating was favourable, given that economic reform has begun later in Romania than elsewhere in former communist Europe, and reflected the country's low debt and improving macro-economic situation.

All the agencies praised Romania's relatively low indebtedness – the country's external debt is 24 per cent of GDP, one of the lowest levels among borrowers from the emerging markets. Inflation fell last year to an estimated 28 per cent and its growth figure of 6.9 per cent was among the highest in Europe.

The S&P rating puts Romania two notches below Hungary and Slovakia and one below Poland. The Moody's rating was two notches below that awarded Hungary and three below the investment grade ratings awarded to both Poland and Slovakia. The Czech Republic has an investment grade rating from both agencies.

Romania re-entered international capital markets last year, borrowing $260m in two syndicated loans arranged by Citibank.

In addition it recently launched a $50m 5-year private placement, arranged by Merrill Lynch. The central bank is expected to announce its capital-raising strategy in the near future.

Romania was absent from the capital markets for more than a decade, after the decision of its late dictator, Nicolae Ceausescu, to repay the country's entire $10bn foreign debt in the 1980s.

Nomura advised Romania on its Japanese rating, while Merrill Lynch advised it on the other three ratings.

Investor lethargy and high hedging costs hit activity

By Conner Middelmann

Despite a clutch of new issues yesterday – all from banks and financial institutions – the eurobond market has turned lethargic in recent days as participants await interest rate developments in the US and Europe.

"End-investors are not getting heavily involved – they're in wait-and-see mode and are keeping a lot of their money in cash," said one syndicate manager.

This has left intermediaries building up inventories of unplaced paper, but because of the recent sharp rise in hedging costs, they are reluctant to underwrite more bonds which they might have to hedge in the absence of investor demand. "The cost of hedging has got so high that if you kept a position on your books for two to three weeks it would wipe out your profits," said one dealer.

Because of a lack of stock, 10-year dollar repo rates have fallen from about 5¼ per cent

INTERNATIONAL BONDS

to about 1¼ per cent since last week, leading to a sharp rise in the cost of borrowing bonds for hedging purposes. In the five-year sector, the rate has fallen from about 4½ per cent to about ¼ per cent. "Being short of either issue will be almost prohibitively expensive," said one trader.

Nevertheless, SüdwestLB, the German regional bank, braved the market with $500m of five-year bonds, which are to be priced today at a yield spread of 18 basis points over Treasuries. After several arbitrage-driven, retail-targeted dollar deals, it was the bank's first negotiated offering aimed more at institutional investors.

An official at SBC Warburg, who acted as joint bookrunner with Morgan Stanley, reported good demand for the paper from institutional investors in Europe and non-Japan Asia.

Merrill Lynch issued $200m in four-year bonds yielding 43 basis points over Treasuries, for which it reported especially good demand from continental European investors. "A lot of investors prefer short-dated paper – the curve is so flat there's no incentive for them to move further out," said a syndicate official. A recent three-year dollar bond for Merrill Lynch which was launched at a spread of 40 basis points over Treasuries is trading at a 30-basis-point spread.

In the sterling sector, Lloyds TSB Group issued its first fixed-rate bond since the merger between the two institutions last December, £250m of ten-year bonds yielding 60 basis points over gilts, via Salomon Brothers and SBC Warburg. The lead managers reported good demand from UK and some European accounts.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
SüdwestLB Capital Markets	500	(a)	(a)R	Mar 2001	0.25R	+18(5¾%-01)	M.Stanley/SBC Warburg
Merrill Lynch & Co	200	6.00	99.93R	Mar 2000	0.275R	+43(†)	Merrill Lynch International
D-MARKS							
World Bank(s)	300	4.625	99.92R	Dec 1999	0.225R	flat(7%-99)	SocGen Frankfurt
De NIB(s)	250	4.75	101.72	Dec 1999	2.15	-	DG Bank
DSL Bank	250	4.25	99.53R	Apr 1999	0.1575R	+14(5¾%-99)	UBS Germany
STERLING							
Lloyds TSB Group	250	8.50	99.435R	Mar 2006	0.45R	+60(7¾%-06)	Salomon Bros/SBC Warburg
AUSTRALIAN DOLLARS							
State Bank of New South Wales	125	8.00	101.15	Mar 2000	1.75	-	Deutsche Morgan Grenfell
ESCUDOS							
Exe Finance Co(b)‡	15bn	(b1,s)	100.00	Jun.2003	undisci	-	Caixa Geral de Depositos

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Priced today. b) Backed by 10⅝% Portuguese govt bond due June 2003. b1) 6-mth Lisbor -16bp. † Over interpolated yield. s) Short 1st coupon.

CME trades euroyen future

By Richard Lapper

Trading of the euroyen futures contract began yesterday on the Chicago Mercantile Exchange (CME), under the market's mutual offset agreement with the Singapore International Monetary Exchange (Simex). Some 1,130 contracts were traded in the first four hours of dealing.

This is the first time the product, the most popular non-US interest rate contract in the world, has been traded in the US and European time zones.

The CME announced last month that it was expanding its mutual offset system to incorporate the euroyen.

CME and Simex have allowed firms mutually to trade and offset the eurodollar futures contract for the past 12 years. The link was the first between two financial exchanges. Mr Jack Sandner, chairman of the CME, said last month that the linkage would enable traders to have immediate access "virtually 24 hours a day to a euroyen contract that is already well-established and liquid on the Simex".

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	109.8460	-0.670	8.62	8.78	8.02
Austria		6.125	02/06	97.4900	-	6.47	6.58	6.20
Belgium		7.000	05/06	101.8000	+0.090	6.75	6.83	6.35
Canada *		8.750	12/05	109.9900	-0.510	7.44	7.49	7.16
Denmark		8.000	03/06	103.6800	+0.200	7.46	7.61	7.09
France	BTAN	7.000	10/00	105.7500	+0.125	5.54	5.69	5.45
	OAT	7.250	09/06	104.9800	+0.180	6.56	6.65	6.40
Germany Bund		6.000	01/06	97.8300	+0.220	6.30	6.36	5.89
Ireland		8.000	08/06	101.6000	+0.030	7.76	7.84	7.32
Italy		10.500	09/05	101.3000	-1.110	10.29†	10.24	10.16
Japan	No 129	6.400	03/00	117.1970	+0.266	1.81	2.15	1.75
	No 182	3.000	09/05	95.6460	+0.216	3.19	3.42	2.95
Netherlands		6.000	01/06	97.8000	+0.070	6.30	6.37	5.89
Portugal		11.875	02/05	112.9800	-0.020	9.64	9.58	9.43
Spain		10.150	01/06	101.0100	-0.150	9.98	9.59	9.65
Sweden		6.000	02/05	82.1160	+0.108	9.00	8.73	8.61
UK Gilts		8.000	12/00	103-24	-2/32	7.06	7.16	6.74
		7.500	12/06	97-22	-	7.82	7.92	7.44
		9.000	10/08	108-05	-	7.96	8.04	7.60
US Treasury *		5.625	02/06	96-30	-13/32	6.04	6.04	5.66
		6.000	02/26	94-06	-13/32	6.43	6.44	6.11
ECU (French Govt)		7.500	04/05	103.3200	-0.030	6.99	7.18	6.81

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8¼	One month	5.18	Two year	5.34
Broker loan rate	7	Two month	5.03	Three year	5.48
Fed.funds	5⅛	Three month	5.05	Five year	5.65
Fed.funds at intervention	·	Six month	5.06	10-year	5.98
		One year	5.13	30-year	6.42

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	121.90	121.96	+0.10	122.20	121.86	129,482	118,371
Jun	121.88	121.88	+0.06	122.12	121.78	26,112	39,415
Sep	120.68	120.68	+0.06	120.88	120.68	2	2,350

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Apr	Calls May	Calls Jun	Puts Apr	Puts May	Puts Jun
119	-	-	-	0.08	0.25	0.50
120	-	-	2.53	0.17	0.46	0.72
121	1.27	-	1.88	0.37	-	1.03
122	0.62	0.98	1.30	0.76	1.12	1.43
123	0.23	0.58	0.80	-	-	-

Est. vol. total. Calls 17,490 Puts 10,777. Previous day's open int., Calls 138,107 Puts 124,463.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	97.79	97.70	+0.05	97.92	97.64	13507	8831
Jun	96.90	97.02	+0.24	97.13	96.70	160660	211641

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Apr	Calls May	Calls Jun	Calls Sep	Puts Apr	Puts May	Puts Jun	Puts Sep
9700	0.61	0.97	1.19	1.18	0.59	0.85	1.17	1.99
9750	0.38	0.73	0.94	0.97	0.86	1.21	1.42	2.33
9800	0.21	0.53	0.72	0.78	1.19	1.51	1.70	2.59

Est. vol. total, Calls 16371 Puts 12638. Previous day's open int., Calls 254921 Puts 189080

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	110.80	109.80	-0.82	111.10	109.65	56362	48583
Sep	-	109.30	-0.82	-	-	0	0

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
10950	2.16	2.69	1.55	2.89
11000	1.90	2.46	2.10	3.16
11050	1.65	2.24	2.35	3.44

Est. vol. total, Calls 2477 Puts 1768. Previous day's open int., Calls 49054 Puts 42772

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	94.12	94.24	+0.14	94.62	93.95	104,320	38,804
Jun	93.70	93.84	+0.15	94.23	93.65	7,053	11,106

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	107-29	107-30	+0-02	108-07	107-25	7488	38984
Jun	107-04	107-04	+0-01	107-15	106-27	50631	104487

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Apr	Calls May	Calls Jun	Calls Sep	Puts Apr	Puts May	Puts Jun	Puts Sep
107	0-56	1-26	1-48	2-08	0-48	1-18	1-40	2-52
108	0-25	0-60	1-17	1-44	1-20	1-52	2-09	3-25
109	0-12	0-38	0-57	1-22	2-04	2-30	2-49	4-04

Est. vol. total, Calls 5299 Puts 1498. Previous day's open int., Calls 38455 Puts 25124

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	90.70	90.60	-	90.80	90.56	2,453	7,730
Jun	90.20	90.10	+0.04	90.22	90.06	1,669	2,188

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	115-30	115-23	-0-08	116-03	115-16	19,976	104,833
Jun	115-13	115-07	-0-06	115-20	114-30	381,118	273,374
Sep	114-15	114-19	-0-09	114-20	114-13	478	14,423

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	120.29	-	-	120.45	120.29	275	0
Jun	118.92	-	-	118.98	118.91	1425	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Mar 6	Day's change %	Tue Mar 5	Accrued interest	xd adj. ytd		Low coupon yield Mar 6	Mar 5	Yr. ago	Medium coupon yield Mar 6	Mar 5	Yr. ago	High coupon yield Mar 6	Mar 5	Yr. ago
1 Up to 5 years (23)	122.61	-0.01	122.62	2.21	1.58	5 yrs	7.15	7.13	8.71	7.19	7.17	8.72	7.27	7.26	8.88
2 5-15 years (20)	148.13	-0.05	148.21	2.97	1.21	15 yrs	8.05	8.03	8.61	8.06	8.05	8.74	8.17	8.16	8.95
3 Over 15 years (9)	161.51	-0.05	161.60	2.26	2.82	20 yrs	8.15	8.13	8.57	8.14	8.13	8.74	8.25	8.24	8.86
4 Irredeemables (6)	186.32	-0.27	186.82	3.89	0.00	Irred.†	8.19	8.17	8.61						
5 All stocks (58)	143.01	-0.04	143.07	2.60	1.57										

Index-linked	Wed Mar 6	Day's change %	Tue Mar 5	Accrued interest	xd adj. ytd		Inflation 5% Mar 6	Mar 5	Yr. ago	Inflation 10% Mar 6	Mar 5	Yr. ago
6 Up to 5 years (1)	196.80	-0.05	196.90	3.20	0.00	Up to 5 yrs	2.83	2.79	3.80	1.56	1.52	2.47
7 Over 5 years (11)	185.40	+0.10	185.22	1.15	0.63	Over 5 yrs	3.71	3.72	3.96	3.61	3.62	3.78
8 All stocks (12)	185.53	+0.09	185.35	1.20	0.62							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Mar 6	Mar 5	Mar 4	Mar 1	Feb 29	Yr ago	High*	Low*
Govt. Secs. (UK)	93.74	93.86	93.90	93.56	93.05	90.83	96.34	90.22
Fixed Interest	112.13	112.18	112.14	112.01	111.82	108.77	116.23	108.77

*for 1995/96. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Mar 5	Mar 4	Mar 1	Feb 29	Feb 28
Gilt Edged bargains	130.8	106.1	72.0	104.8	108.5
5-day average	104.5	97.0	99.9	102.1	102.1

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on March 6

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	100⅝	100⅞	-½	6.38
ABN Amro Bank 7¼ 05	1000	104⅝	104⅞	-⅛	6.72
African Dev Bk 7¾ 23	500	101½	102	-½	7.25
Sweden 8 97	2500	105½	105⅝		3.87
United Kingdom 7¼ 97	5500	105¼	105⅜	-⅛	3.78
Volkswagen Intl Fin 7 03	1000	103	103¼		6.46
World Bank 0 15	2000	29⅛	29¼		6.43
Abbey Natl Treasury 8 03 £	1000	99⅞	100	-¼	8.02
Alliance Leics 11⅞ 97 £	100	105½	105⅝		6.32
British Land 8⅞ 23 £	150	90⅛	90⅞	-⅛	10.17
Denmark 6¾ 98 £	500	100	100⅛		6.72
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month above mean rate for US dollars). C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts (Lives up to Five Years)						
Treas 15¼pc 1996‡‡	15.03	5.98	101$\frac{15}{32}$	-	108⅝	101$\frac{15}{32}$
Exch 13¼pc 1996‡‡	13.07	5.92	101⅞	-$\frac{1}{32}$	108⅛	101⅞
Conversion 10pc 1996	9.74	5.88	102$\frac{21}{32}$	-	104$\frac{13}{16}$	102$\frac{21}{32}$
Treas 13¼pc 1997‡‡	12.47	5.90	106$\frac{7}{32}$	-	109$\frac{11}{16}$	106$\frac{7}{32}$
Exch 10½pc 1997	10.08	5.92	104¼	-	105$\frac{13}{16}$	104¼
Treas 8½pc 2005‡‡	8.11	7.78	104$\frac{13}{16}$	-$\frac{1}{16}$	108$\frac{31}{32}$	98$\frac{15}{16}$
Treas 7½pc 2006‡‡	7.68	7.81	97$\frac{21}{32}$	-$\frac{1}{16}$	101$\frac{13}{16}$	94$\frac{13}{16}$
Treas 7¾pc 2006‡‡	7.82	7.87	99$\frac{1}{16}$xd	-$\frac{1}{16}$	103¼	93$\frac{1}{16}$
Treas 8pc 2002-6‡‡	7.95	7.80	100$\frac{21}{32}$	-$\frac{1}{16}$	104$\frac{13}{16}$	94$\frac{11}{16}$
Treas 11¾pc 2003-7	9.66	7.83	121⅞	-⅛	125$\frac{3}{16}$	114$\frac{13}{16}$
[illegible]						

Index-Linked (b): 2pc '96 (67.9) — 0.88 216$\frac{13}{16}$ 215$\frac{7}{16}$ 204$\frac{13}{16}$; 4⅝pc '98‡‡ (135.6) 1.97 2.83 111$\frac{13}{16}$ 113$\frac{7}{16}$ 107$\frac{11}{16}$; 2½pc '01 (78.3) 3.02 3.52 177$\frac{3}{16}$ 180$\frac{1}{16}$ 166$\frac{13}{16}$; 2½pc '03 (78.8) 3.20 3.58 171$\frac{1}{16}$ 176$\frac{1}{16}$ 162$\frac{11}{16}$; 4⅛pc '04‡‡ (135.6) 3.24 3.59 114 116$\frac{11}{16}$ 108$\frac{13}{16}$; 2pc '06 (69.5) 3.34 3.61 181¼ 185$\frac{7}{16}$ 168⅞; [illegible]

Other Fixed Interest

[illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

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CURRENCIES AND MONEY

MARKETS REPORT

Lira slides as investors desert Italian bonds

By Philip Gawith

The lira's recent rally came to a halt yesterday after the release of February consumer inflation data prompted a sell-off in Italian bonds.

The lira's decline came against the backdrop of a generally weaker D-Mark, with the French franc rising to a six week high, before closing in London at FFr3.422, from FFr3.426. The lira finished at L1,055, from L1,050.

The main currencies remained in fairly narrow ranges, with the dollar finishing at DM1.475, from DM1.4789. Against the yen it closed at Y105.275, from Y105.125.

Sterling was also stable, finishing at DM2.2558, from DM2.2594, and at $1.5294, from $1.5278. Attention today will be focused on the monthly monetary meeting which is widely expected to produce a cut in UK interest rates.

Elsewhere, the Taiwanese central bank engaged in a vigorous defence of the Taiwanese dollar which is under pressure on account of strained relations with China. It touched T$27.50, before closing at T$27.4995, from T$27.498.

The Danish central bank took advantage of recent currency strength to cut the discount and key deposit rates to 3.75 per cent, from 4 per cent.

■ The fall in the lira appeared to be a correction rather than any fundamental re-assessment of the outlook for the lira and Italian assets, which remains fairly positive.

"There is a little bit of a sense that the market has had a good run in terms of a bullish dollar/bearish D-Mark, and the lira has been one of the main beneficiaries of that," said Mr Mike Gallagher, director at IDEA in London.

He said after the CPI release, investors had switched out of Italian bonds into French and German bonds, cutting their long Lira positions.

Mr Gallagher said the dollar's inability to rally after the better than expected German M3 figure, and the good performance of Senator Dole in the Republican primaries, left it looking "a little fatigued." He said it could slip to DM1.46 in the short term.

Further out, the dollar is not short of allies. Indeed, this week presents the curious spectacle of two historic dollar adversaries – Jim O'Neill at Goldman Sachs and Paul Chertkow at UBS – emerging with near identical, bullish, dollar forecasts.

Both analysts see the dollar rallying to Y116 and DM1.60, with the only difference being the time-frame. Goldman have these rates as six month targets, while UBS are forecasting the same figures over the next twelve months.

An altogether gloomier view comes from Neil MacKinnon, chief economist at Citibank in London. He remains an unrepentant dollar bear, forecasting DM1.40 and Y102 in six months, and DM1.35 and Y95 over twelve months.

Mr O'Neill makes two main points about the dollar. One is that the much hyped seasonal rally of the yen against the dollar, because of the Japanese financial year-end, is overdone. He says there is no reliable seasonal pattern for the February-April period.

Mr O'Neill argues that concern about the strength of the D-Mark is also overstated. He notes that over the past year, the D-Mark has fallen by around 15 per cent against the lira, 10 per cent against the peseta and 20 per cent against the Swedish krona.

Mr MacKinnon says the dollar flattering to deceive is a case of "same old story". He argues that market pessimism about the strength of the German economy, and hence the outlook for the D-Mark, is once again exaggerated.

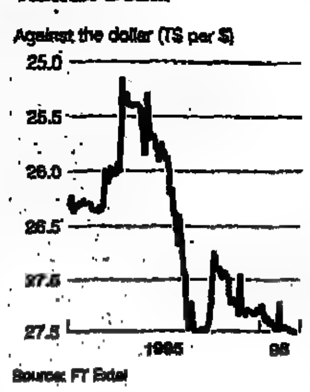
■ Turnover in the Taiwan dollar yesterday was reported at $501m, the heaviest in six months. The central bank reiterated its support of T$27.50, and intervened heavily to defend this level.

Taiwan's foreign exchange reserves have already fallen by more than 10 per cent, from around $100bn to below $90bn, and there were reports yesterday that the central bank was prepared to see these fall as far as $40-50bn.

Mr David Simmonds, emerging market economist at Citibank in London, said he doubted whether "if the pressure becomes so great, they will intervene to that extent."

The latest weakness followed the announcement earlier this week by China that it will conduct missile tests close to the island in the days ahead. There is also some nervousness surrounding the up-coming presidential elections on March 23.

Taiwan Dollar



Source: FT Extel

■ Pound in New York

Mar 5	Latest	Prev. close
£ spot	1.5295	1.5295
1 mth	1.5285	1.5284
3 mth	1.5258	1.5265
1 yr	1.5184	1.5179

■ OTHER CURRENCIES

Mar 6	£	$
Czech Rp	41.5339 - 41.5691	27.1640 - 27.1740
Hungary	217.026 - 217.202	141.940 - 141.990
Iran	4583.10 - 4587.00	3000.00 - 3000.00
Kuwait	0.4567 - 0.4574	0.2987 - 0.2990
Poland	3.9257 - 3.9290	2.5675 - 2.5685
Russia	7372.84 - 7390.80	4822.00 - 4826.00
U.A.E.	5.6151 - 5.6184	3.6724 - 3.6728

POUND SPOT FORWARD AGAINST THE POUND

Mar 6		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.6636	-0.0245	565 - 711	15.9061	15.8614	[illegible]	2.3	15.7513	2.8	-	-	105.9
Belgium	(BFr)	46.3599	-0.0676	287 - 111	46.4910	46.3270	46.2649	2.7	46.0649	2.6	45.2049	2.5	108.2
Denmark	(DKr)	8.7142	-0.0139	099 - 185	8.7377	8.7090	8.7022	1.6	8.6821	1.5	8.578	1.6	109.2
Finland	(FM)	7.0202	+0.0085	140 - 264	7.0500	6.9850	7.0159	0.9	7.0077	0.7	-	-	83.9
France	(FFr)	7.7209	-0.0186	181 - 236	7.7464	7.7178	7.708	2.0	7.6871	1.8	7.5095	1.8	109.5
Germany	(DM)	2.2558	-0.0036	548 - 568	2.2638	2.2545	2.2505	2.8	2.2404	2.7	2.1975	2.6	110.2
Greece	(Dr)	368.558	-0.096	122 - 994	370.063	368.028	-	-	-	-	-	-	66.4
Ireland	(I£)	0.9726	-0.0003	717 - 734	0.9735	0.9709	0.9717	1.2	0.9702	1.0	0.9662	0.7	97.5
Italy	(L)	2378.74	+6.72	706 - 041	2383.09	2364.09	[illegible]	-3.8	2401.94	-3.9	2460.79	-3.4	74.1
Luxembourg	(LFr)	46.3599	-0.0676	287 - 111	46.4910	46.3270	46.2649	2.7	46.0549	2.6	45.2049	2.5	108.2
Netherlands	(Fl)	2.5256	-0.0039	244 - 268	2.5324	2.5242	2.5194	2.9	2.5073	2.9	2.4591	2.6	108.3
Norway	(NKr)	9.8204	-0.0146	128 - 280	9.8505	9.8069	9.8124	1.0	9.7969	0.9	9.7405	0.8	99.0
Portugal	(Es)	234.105	-0.344	966 - 243	234.887	232.989	[illegible]	-2.2	[illegible]	-2.3	-	-	95.2
Spain	(Pta)	190.611	-0.702	496 - 726	191.229	190.490	191.031	-2.6	191.885	-2.7	194.986	-2.3	81.6
Sweden	(SKr)	10.4438	-0.0159	342 - 534	10.4719	10.3995	10.4452	-0.2	10.4482	-0.2	10.4566	-0.1	[illegible]
Switzerland	(SFr)	1.8349	-0.0016	339 - 358	1.8406	1.8326	1.828	4.5	1.815	4.2	1.7628	3.9	[illegible]
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	83.8
Ecu	-	1.2172	+0.0008	164 - 179	1.2181	1.2144	1.2158	1.4	1.2131	1.3	1.2012	1.3	-
SDR†	-	1.04418	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5292	+0.0016	287 - 297	1.5322	1.5279	-	-	-	-	-	-	-
Brazil	(R$)	1.5040	+0.0018	035 - 045	1.5084	1.5027	-	-	-	-	-	-	-
Canada	(C$)	2.0984	+0.0022	[illegible]	2.1080	2.0952	2.0947	0.9	2.092	0.8	2.0821	0.7	83.8
Mexico	(New Peso)	11.6154	+0.0912	061 - 257	11.6284	11.5952	-	-	-	-	-	-	-
USA	($)	1.5294	+0.0016	290 - 297	1.5325	1.5281	1.5284	0.8	1.5266	0.7	1.518	0.7	95.6
Pacific/Middle East/Africa													
Australia	(A$)	2.0074	-0.0037	061 - 086	2.0167	2.0047	2.0093	-1.1	2.0141	-1.3	2.0374	-1.5	89.0
Hong Kong	(HK$)	11.8266	+0.0143	231 - 301	11.8498	11.8171	11.8161	1.1	11.8038	0.8	11.7587	0.6	-
India	(Rs)	52.1050	+0.4441	166 - 934	52.2580	51.8840	-	-	-	-	-	-	-
Israel	(Shk)	4.7413	-0.003	365 - 460	4.7496	4.7157	-	-	-	-	-	-	-
Japan	(Y)	161.002	+0.397	912 - 093	161.230	160.760	160.232	5.7	158.737	5.6	152.872	5.0	136.0
Malaysia	(M$)	3.8815	-0.0044	798 - 831	3.8958	3.8793	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2649	+0.0094	635 - 662	2.2699	2.2619	2.2697	-2.0	2.2819	-3.0	2.3157	-2.2	105.6
Philippines	(Peso)	39.9925	-0.0117	089 - 761	40.0792	39.9063	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7355	+0.006	339 - 371	5.7470	5.7314	-	-	-	-	-	-	-
Singapore	(S$)	2.1592	+0.0027	579 - 604	2.1621	2.1575	-	-	-	-	-	-	-
South Africa	(R)	5.9331	+0.0169	279 - 383	5.9389	5.8270	-	-	-	-	-	-	-
South Korea	(Won)	1189.30	-1.2	895 - 965	1194.12	1186.40	-	-	-	-	-	-	-
Taiwan	(T$)	42.0564	+0.0463	460 - 668	42.1392	42.0228	-	-	-	-	-	-	-
Thailand	(Bt)	38.5427	+0.0434	186 - 668	38.6040	38.5160	-	-	-	-	-	-	-

† Rates for Mar 5. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 6		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.3729	-0.0269	705 - 753	10.4050	10.3600	[illegible]	1.9	10.3254	1.8	10.2029	1.6	105.8
Belgium	(BFr)	30.3200	-0.076	000 - 400	30.4100	30.2990	30.275	1.8	30.183	1.8	29.85	1.6	[illegible]
Denmark	(DKr)	5.6980	-0.0151	955 - 005	5.7141	5.6892	5.6946	0.7	5.689	0.6	5.7055	-0.1	[illegible]
Finland	(FM)	4.5903	+0.0007	873 - 933	4.6107	4.5620	[illegible]	1.2	4.5773	1.1	4.5606	0.8	83.3
France	(FFr)	5.0485	-0.0175	478 - 491	5.0685	5.0460	5.0433	1.2	5.0356	1.0	5.0065	0.8	106.9
Germany	(DM)	1.4750	-0.0039	747 - 753	1.4799	1.4733	1.4725	2.0	1.4696	1.5	1.4477	1.9	[illegible]
Greece	(Dr)	240.990	-0.315	760 - 220	241.950	240.310	242.565	-7.8	245.815	-8.0	260.49	-8.1	65.9
Ireland	(I£)	1.5725	+0.0022	715 - 735	1.5755	1.5705	1.5728	-0.2	1.573	-0.1	1.567	0.3	-
Italy	(L)	1555.39	+2.77	465 - 613	1559.00	1544.75	1561.74	-4.9	1573.49	-4.7	[illegible]	-4.4	74.0
Luxembourg	(LFr)	30.3200	-0.076	000 - 400	30.4100	30.2990	30.268	2.1	30.18	1.8	29.875	1.5	107.8
Netherlands	(Fl)	1.6514	-0.0043	510 - 518	1.6563	1.6510	1.6480	2.2	1.6419	2.3	1.6197	1.9	107.7
Norway	(NKr)	6.4213	-0.0163	178 - 248	6.4395	6.4094	6.419	[illegible]	6.4108	0.7	6.3938	[illegible]	98.1
Portugal	(Es)	153.075	-0.365	020 - 130	153.520	152.300	153.45	[illegible]	154.22	-3.0	157.825	-3.1	95.2
Spain	(Pta)	124.635	-0.59	590 - 680	125.150	124.580	125.03	-3.8	125.765	-3.6	129.255	-3.7	81.1
Sweden	(SKr)	6.8289	-0.0176	242 - 336	6.8455	6.7895	6.846	-3.0	6.8754	-2.7	7.0129	-2.7	85.5
Switzerland	(SFr)	1.1988	-0.0023	994 - 001	1.2035	1.1969	1.1961	[illegible]	1.1889	[illegible]	1.1813	3.2	113.1
UK	(£)	1.5294	+0.0016	290 - 297	1.5325	1.5281	1.5284	0.8	1.5266	0.7	1.518	0.7	83.1
Ecu	-	1.2565	+0.0004	560 - 570	1.2595	1.2553	1.2568	-0.3	1.2571	-0.2	1.2578	-0.1	-
SDR†	-	[illegible]	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 000	1.0000	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	0.9834	+0.0001	[illegible]	0.9835	0.9833	-	-	-	-	-	-	-
Canada	(C$)	1.3708	-	705 - 710	1.3734	1.3705	1.371	-0.1	1.3711	-0.1	1.3761	-0.4	82.9
Mexico	(New Peso)	7.5950	+0.0125	900 - 000	7.6000	7.5900	7.5972	[illegible]	7.6004	-0.3	7.6053	-0.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.4
Pacific/Middle East/Africa													
Australia	(A$)	1.3125	-0.0036	122 - 130	1.3160	1.3119	1.3145	-1.8	1.318	-1.7	1.3387	-1.8	89.5
Hong Kong	(HK$)	7.7331	+0.0013	326 - 336	7.7336	7.7324	7.7335	-0.1	7.7366	-0.1	7.7626	-0.4	-
India	(Rs)	[illegible]	+0.255	200 - 200	[illegible]	[illegible]	34.22	-5.3	34.525	-5.5	35.995	-5.7	-
Israel	(Shk)	3.1002	-0.0052	978 - 026	3.1038	3.0854	-	-	-	-	-	-	-
Japan	(Y)	105.275	+0.15	240 - 310	105.410	105.110	104.84	5.0	104.04	4.7	100.97	4.1	138.8
Malaysia	(M$)	2.5380	-0.0065	375 - 385	2.5445	2.5365	2.5389	-0.4	2.545	-1.1	2.5685	-1.2	-
New Zealand	(NZ$)	1.4808	-	804 - 815	1.4820	1.4802	1.4839	-2.5	1.4897	-2.4	1.5143	-2.3	-
Philippines	(Peso)	26.1500	-0.035	000 - 000	26.2000	26.1000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7503	-	501 - 505	3.7505	3.7500	3.7506	-0.1	3.7515	-0.1	3.7548	-0.1	-
Singapore	(S$)	1.4118	+0.0009	113 - 123	1.4127	1.4110	1.4083	3.0	1.4022	2.7	1.3768	2.5	-
South Africa	(R)	3.8795	+0.007	770 - 820	3.8840	3.8760	3.9083	[illegible]	3.9596	-8.3	4.183	-7.8	-
South Korea	(Won)	777.650	-1.6	600 - 700	780.000	777.600	780.65	-4.5	784.15	-3.3	802.65	-3.2	-
Taiwan	(T$)	27.4995	+0.0015	990 - 000	27.5000	27.4970	27.5195	-0.9	27.5595	-0.9	-	-	-
Thailand	(Bt)	25.2020	+0.002	920 - 120	25.2120	25.1900	[illegible]	-4.7	25.5045	-4.8	26.387	-4.7	-

† SDR rate per $ for Mar 5. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Mar 5: Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

March 6	Over night	One month	Three mths	Six mths	One year	Lomb. inter	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	3.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	3.00	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.90	-	5.60
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.90	-	5.60
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	3.00	3.30
Ireland	5	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.89
week ago	10	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.72
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	2	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	4.83	4.88	4.89	4.94	-	-	-
week ago	-	4.83	4.91	4.94	5.02	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Mar 6	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	4⅛ - 4	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	2 - 1⅞	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.66	95.69	+0.03	95.70	95.64	11,832	44,345
Jun	95.69	95.70	+0.04	95.72	95.68	11,372	60,011
Sep	95.66	95.69	+0.03	95.71	95.67	4,746	49,110

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.68	96.68	-	96.70	96.67	14377	135352
Jun	96.81	96.80	+0.01	96.84	96.78	35378	209920
Sep	96.72	96.75	+0.02	96.77	96.68	30068	204488
Dec	96.48	96.51	+0.03	96.54	96.48	37247	186756

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	90.46	90.36	-0.07	90.47	90.30	4768	32729
Jun	91.05	90.91	-0.07	91.20	90.86	14857	34040
Sep	91.33	91.21	-0.08	91.39	91.15	3838	16795
Dec	91.41	91.27	-0.09	91.45	91.20	2082	13875

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.23	98.24	-0.01	98.27	98.21	1045	20227
Jun	98.18	98.16	-0.03	98.20	98.10	9592	22432
Sep	98.03	97.99	-0.04	98.06	97.94	2489	12017
Dec	97.77	97.72	-0.06	97.79	97.68	1512	8182

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.43	95.41	-	95.43	95.39	721	[illegible]
Jun	95.54	95.54	+0.02	95.56	95.52	1111	5487
Sep	95.48	95.49	+0.03	95.50	95.48	152	3279
Dec	95.27	95.30	+0.02	95.27	95.27	4	3149

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9025	0.15	0.83	1.19	0.08	0.17	0.23
9050	0.06	0.63	0.99	0.21	0.22	0.28
9075	0.01	0.46	0.81	0.41	0.30	0.38

Est. vol. total, Calls 391 Puts 574. Previous day's open int., Calls 20012 Puts 22245

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 6		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.79	16.65	4.865	2.098	5130	5.447	21.18	504.9	411.0	22.51	3.957	2.157	4.520	3.297	347.2	2.626
Denmark	(DKr)	53.21	10	[illegible]	2.589	1.117	2730	2.899	11.27	268.6	218.7	11.98	2.106	1.148	2.405	1.755	184.8	1.397
France	(FFr)	60.08	11.29	10	[illegible]	1.260	3081	3.272	12.72	303.2	246.9	13.52	2.377	1.295	2.715	1.980	208.5	1.576
Germany	(DM)	20.55	3.863	3.422	1	0.431	1055	1.120	4.353	103.8	84.49	4.628	0.813	0.443	0.929	0.678	71.37	0.539
Ireland	(I£)	47.66	8.956	7.936	2.319	1	2445	2.596	10.09	240.6	195.9	10.73	1.886	1.028	2.154	1.571	165.5	1.251
Italy	(L)	1.949	0.366	0.325	0.095	0.041	100.	0.106	0.413	9.840	8.012	0.439	0.077	0.042	0.088	0.064	6.768	0.051
Netherlands	(Fl)	18.36	3.450	3.057	0.893	0.385	941.8	1	[illegible]	92.68	75.46	[illegible]	0.726	0.396	0.830	0.605	63.74	0.482
Norway	(NKr)	47.22	8.874	7.863	2.297	0.991	2422	2.572	10	238.4	194.1	10.63	1.869	1.018	2.134	1.557	164.0	1.239
Portugal	(Es)	19.81	3.722	3.298	0.964	0.416	1016	1.079	4.195	100.	81.42	4.460	0.784	0.427	0.895	0.653	68.77	0.520
Spain	(Pta)	24.33	4.572	4.051	1.184	0.510	1248	1.325	5.152	122.8	100.	5.477	0.963	0.525	1.100	0.802	84.47	0.639
Sweden	(SKr)	44.42	8.347	7.396	2.161	0.932	2279	2.420	9.406	224.2	182.6	10	1.758	0.958	2.008	1.465	154.2	1.166
Switzerland	(SFr)	25.27	4.749	4.208	1.229	0.530	1296	1.377	5.351	127.6	103.9	5.689	1	0.545	1.142	0.833	87.74	0.663
UK	(£)	46.37	8.714	7.721	2.256	0.973	2379	2.526	9.820	234.1	190.6	10.44	1.835	1	2.098	1.529	161.0	1.217
Canada	(C$)	22.12	4.157	3.684	1.076	0.464	1135	1.205	4.685	111.7	90.94	4.981	0.876	0.477	1	0.729	76.81	0.581
US	($)	30.33	5.698	5.050	1.475	0.636	1555	1.652	6.422	153.1	124.7	6.828	1.200	0.654	1.371	1	105.3	0.796
Japan	(Y)	[illegible]	5.412	4.796	1.401	0.604	1478	1.569	6.099	145.4	118.4	6.484	1.140	0.621	1.302	0.950	100.	0.756
Ecu		38.10	7.160	6.344	1.854	0.800	1955	2.076	8.069	192.4	156.6	8.578	1.508	0.822	1.722	1.256	132.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.6794	0.6778	-0.0004	0.6799	0.6762	17,016	62,741
Jun	0.6814	0.6810	-0.0004	0.6814	0.6798	2,166	9,392
Sep	-	0.6842	-0.0004	-	0.6837	39	1,717

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.9518	0.9520	+0.0002	0.9535	0.9505	10,614	62,623
Jun	0.9618	0.9631	+0.0003	0.9631	0.9615	3,263	15,058
Sep	0.9720	0.9723	-0.0010	0.9723	0.9720	95	982

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.8350	0.8336	-0.0004	0.8364	0.8320	11,016	32,294
Jun	0.8405	0.8413	-0.0001	0.8446	[illegible]	2,631	7,712
Sep	0.8475	0.8476	-0.0005	0.8476	0.8475	3	293

■ STERLING FUTURES (IMM) $62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.5298	1.5292	+0.0002	1.5318	1.5280	4,753	40,268
Jun	1.5250	1.5266	+0.0004	1.5266	1.5250	409	12,705
Sep	-	1.5220	-0.0008	-	1.5210	2	15

UK INTEREST RATES

LONDON MONEY RATES

Mar 6	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 6¼ per cent from January 18, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	[illegible]	[illegible]	[illegible]	5	4½

Certs of Tax dep. under £100,000 is [illegible]pc. Deposits withdrawn for cash 1½pc.
[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.93	93.93	-0.01	93.95	93.93	5056	59582
Jun	94.14	94.13	-0.01	94.16	94.10	10574	68511
Sep	94.12	94.11	-	94.15	94.07	11770	51741
Dec	93.92	93.89	-0.01	93.93	93.85	6333	44026
Mar	93.59	93.56	-0.02	93.60	93.53	2208	32192

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9375	0.19	0.43	0.52	0.01	0.05	0.16
9400	0.05	0.24	0.35	0.10	0.11	0.24
9425	0	0.10	0.22	0.32	0.22	0.36

Est. vol. total, Calls 3350 Puts 2992. Previous day's open int., Calls 158851 Puts 156914

BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Duncan Lawrie	6.25	Royal Bk of Scotland	6.25
Allied Trust Bank	6.25	Exeter Bank Limited	7.25	●Singer & Friedlander	6.25
AIB Bank	6.25	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.25
●Henry Ansbacher	6.25	●Robert Fleming & Co	6.25	TSB	6.25
Bank of Baroda	6.25	Girobank	6.25	United Bank of Kuwait	6.25
Banco Bilbao Vizcaya	6.25	●Guinness Mahon	6.25	Unity Trust Bank Plc	6.25
Bank of Cyprus	6.25	Habib Bank AG Zurich	6.25	Western Trust	6.25
Bank of Ireland	6.25	●Hambros Bank	6.25	Whiteaway Laidlaw	6.25
Bank of India	6.25	Heritable & Gen Inv Bk	6.25	Yorkshire Bank	6.25
Bank of Scotland	6.25	●Hill Samuel	6.25		
Barclays Bank	6.25	C. Hoare & Co	6.25		
Brit Bk of Mid East	6.25	Hongkong & Shanghai	6.25		
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.25		
Citibank NA	6.25	●Leopold Joseph & Sons	6.25		
Clydesdale Bank	6.25	Lloyds Bank	6.25		
The Co-operative Bank	6.25	Meghraj Bank Ltd	6.25		
Coutts & Co	6.25	Midland Bank	6.25		
Credit Lyonnais	6.25	* Mount Credit Corp	6.25		
Cyprus Popular Bank	6.25	NatWestminster	6.25		
		●Rea Brothers	6.25		

● Members of London Investment Banking Association
* In administration

■ EMS EUROPEAN CURRENCY UNIT RATES

Mar 6	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	159.986	-0.578	-1.56	4.50	11
Netherlands	2.15214	2.12696	+0.0002	-1.46	4.39	11
Belgium	39.3960	38.9380	+0.0052	-1.16	4.06	8
Austria	13.4383	13.3224	+0.0022	-0.86	3.77	6
Germany	1.91007	1.89442	+0.0002	-0.82	3.72	5
Portugal	195.792	196.616	-0.164	0.57	2.50	-2
Denmark	7.28580	7.31760	+0.0004	0.46	2.43	-3
France	6.40608	6.48241	-0.00748	1.19	1.86	-10
Ireland	0.792214	0.814989	+0.000092	2.87	0.00	-16
NON ERM MEMBERS						
Greece	292.867	309.223	+0.257	5.58	-2.57	
Italy	2106.15	1992.48	+8.34	-5.40	8.74	
UK	0.786652	0.838122	-0.000048	6.54	-3.44	

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Mar	CALLS Apr	CALLS May	PUTS Mar	PUTS Apr	PUTS May
1.500	2.82	3.09	3.50	0.05	0.39	0.79
1.510	1.82	2.34	2.81	0.13	0.52	1.11
1.520	1.10	1.68	2.26	0.20	0.88	1.50
1.530	0.43	1.16	1.74	0.69	1.31	1.89
1.540	0.15	0.73	1.32	1.18	1.90	2.51
1.550	0.04	0.43	0.98	2.07	2.45	3.16

Previous day's vol., Calls 1,790 Puts 3,375. Prev. day's open int., Calls 182,533 Puts 194,869

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.73	94.72	-0.02	94.73	94.71	32,705	373,091
Jun	94.93	94.89	-0.04	94.93	94.88	109,075	404,705
Sep	94.89	94.87	-0.05	94.92	94.83	133,030	348,370

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	-	95.21	-0.01	-	95.21	699	4,285
Jun	95.34	95.32	-0.05	95.34	95.30	980	6,557
Sep	95.28	95.27	-0.06	95.28	95.26	169	1,686

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Mar	CALLS Apr	CALLS May	CALLS Jun	PUTS Mar	PUTS Apr	PUTS May	PUTS Jun
9650	0.19	0.34	0.35	0.37	0.01	0.02	0.03	0.05
9675	0.02	0.13	0.15	0.17	0.09	0.06	0.10	0.10
9700	0	0.04	0.05	0.06	0.32	0.22	0.23	0.24

Est. vol. total, Calls [illegible] Puts [illegible]. Previous day's open int., Calls [illegible] Puts [illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9800	0.24	0.28	0.27	0	0.12	0.28
9825	0.05	0.11	0.13	0.06	0.20	0.41
9850	0.01	0.05	0.07	0.27	0.38	0.55

Est. vol. total, Calls 0 Puts 2. Previous day's open int., Calls 9345 Puts 4677

PUBLIC NOTICES

OFFICIAL NOTICE

Please be advised that London Metal Exchange warrant No. 105401 covering 27 (twenty seven) bundles High Grade Primary Aluminum Ingots - Brand: KPA3 - Weight: 25,039 Kgs Nett. Stored in warehouse Skandia Transport Helsingborg, has been replaced and should now be considered null and void.

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LEGAL NOTICES

IN THE SUPREME COURT OF GIBRALTAR
CHANCERY DIVISION
IN THE MATTER OF
FIRST GIBRALTAR FINANCIAL CONSULTANTS LIMITED
AND IN THE MATTER OF THE COMPANIES ORDINANCE
NOTICE OF INTENDED DIVIDEND

1. Name of Company: First Gibraltar Financial Consultants Limited
2. Address of registered office: 10th Floor, International Commercial Centre, Casemates Square, Gibraltar
3. Court: The Supreme Court of Gibraltar
4. Number of Matter: F No. 133 of 1989
5. Last day for receiving proofs: Noon 6th May 1996
6. Name of Joint Liquidators: K Capple-Wood and M Jordan
7. Joint Liquidators' address: c/o 10th Floor, International Commercial Centre, Casemates Square, Gibraltar

Dated the 7th day of March 1996
M A JORDAN & K CAPPLE-WOOD
Joint Liquidators

PERSONAL

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SAMANTHA INVESTMENTS PLC

£15 million Subordinated Floating Rate Notes Due 2001

In accordance with the provisions of the Notes, notice is hereby given that for the interest period from 5th March 1996 to 5th September 1996 the Notes will carry interest at the rate of 7.8125 per cent per annum.

Interest payable on 5th September 1996 will amount to £3,938.36 on each £100,000 Note.

West Merchant Bank Limited
Agent Bank

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or −	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq		513	+1	666	475½	5,314	3.7	18.6
Bulmer (HP)		502	+1	562	398	286.7	2.7	17.8
Burn St Dist		120	—	148	99	71.2	5.2	25.8
Grand Met		437xd	—	457	362½	9,150	4.3	18.8
Guinness		471	+3	538	412	9,542	3.7	14.6
Highland		381	+3	406	375	480.9	2.7	16.4
Kirin Y		761½	−1¼	806	621	7,908	0.8	28.8
Macallan-Glen		192	—	217	157	180.2	1.0	35.9
Macdon Martin A		635	—	680	600	87.0	2.1	17.9
Matthew Clark		687xd	—	898	542	614.8	3.9	–
Merrydown		103	—	148	68	11.2	2.4	–
Seagram $		£23½	+½	£25⅞	£16¼	8,451	1.2	–

BANKS, MERCHANT

	Notes	Price	+ or −	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Barings 9pc Cm 2nd Pf		50¼	—	50½	50¼	6.31	19.8	–
Cater Allen		487	—	525	424	152.2	8.0	7.7
Close Bros		379	—	382	234	462.8	3.0	16.7
Gerrard & Nat		416	−1	472	395	203.0	6.8	13.4
Hambros		215	+1	228	180	390.3	4.4	–
7¼pc Cv Pf		101½xd	—	107½	94	130.7	9.2	–
Joseph (L)		450	—	462	353	23.8	5.2	15.5
King & Shaxson		155	—	165	85	40.9	7.3	12.0
Rea Brothers		60	—	67	44	28.6	2.7	24.0
Schroders		1273	+3	1478	953¼	1,922	1.4	18.7
N/V		1000	+2	1180	853¼	440.6	1.8	14.2
Singer & Fried		109	−½	113	81	215.2	4.7	11.3
8½pc Cv Ln 08/14		£132¼	−¼	£137	£117	48.7	6.4	–
Union		101xd	—	121	70	26.9	3.7	ф
Wintrust		304xd	—	308	200	26.1	4.8	17.4

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

OFFSHORE INSURANCE

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER FINANCIAL - Cont.

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR "Headline Earnings"formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- § Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. v P/e ratios are calculated under new ACT guidelines. z Dividend yield includes a special payment. F Yield based on prospectus or other official estimates for 1994-95. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1995. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1995-96. R Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda

Jupiter Tyndall (Bermuda) Ltd

Newport Investment Management

Orion Fund Limited

BERMUDA (REGULATED)(**)

Bermuda Intl Invest Mgmt Ltd

Butterfield Management Co Ltd

Orbs Investment Management Ltd

GUERNSEY (SIB RECOGNISED)

AIB Investment Managers (Guernsey) Ltd

Equitable International Fund Managers Ltd

Hambros Fd Mgrs (CI) Ltd

Kleinwort Benson Intl Fd Mgrs Ltd

Lazard Freres Asset Management (CI) Ltd

Lazard Fund Mgrs (Channel Islands) Ltd

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

Sarasin Funds Mngmt (Guernsey) Ltd
PO Box 348, St Peter Port, Guernsey

Schroder Investment Mngmt (Guernsey) Ltd
PO Box 255, St Peter Port, Guernsey

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

BZW Asset Management Guernsey Ltd

Bachmann Global Investment Fund Ltd

Guinness Flight Select Funds Plc
Europa Hse, Harcourt St, Dublin 2

Hambros Fund Managers (Ireland) Ltd
Intl Financial Services Ctre, Dublin 1

Henderson Crosthwaite Investment Co
32 St Mary at Hill, London, EC3P 3AJ

LGT Asset Management Ltd

IRELAND (SIB RECOGNISED)

AIB Fund Management Ltd

BT Fund Managers (Ireland) Ltd

Bank of Cyprus Group

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

Chemical Ireland Fund Administrators Ltd

Citi Investment Fund (Ireland)

Citizens Investment Trust Mngt Company

Daiwa Europe Fund Managers Ireland Ltd

Dragon Korea Fund Plc

Dresdner Kleinwort Benson Int Mgt Services Ltd

Dynamic Pacific Portfolio Fund Plc

East Asia Hamon Ireland Ltd

Egerton Capital European Fund Plc

Emerging Dynamic Fund Plc

Emerging Market Growth Fund Plc

F.I.T. Investment Trust Ltd (a)

Falcon Market Fund Plc

Framlington Investment Mngt (Ireland) Ltd

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mgrs

Ashburton Global Funds Ltd (1200)

Bank of Ireland Asset Mngmt (IOM) Ltd

Mercury Fund Managers IoM Ltd

Quilter Intl

Sun Life Intl

Ulster Bank

Unibank

ISLE OF MAN (REGULATED)(**)

AXA Equity & Law Intl Fund Mgrs

JERSEY (SIB RECOGNISED)

AIB Fund Managers (CI) Ltd

JERSEY (REGULATED)(**)

Barclays Intl Funds

John Govett Management (Jersey) Ltd

Jupiter Tyndall (Jersey) Ltd

Lloyds Private Banking (CI) Ltd

Lombard Odier (Jersey) Ltd

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (a)

Eagle Star - Global Assets Fund (a)

Nikko Capital Management

LUXEMBOURG (REGULATED)(**)

Aetna International Umbrella Fund (a)

OFFSHORE INSURANCES

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OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Mar 5	$20.00		—	—
Vale-Trac Investment Management Ltd				
Vale-Trac Global Bd Tst	[illegible]	[illegible]	[illegible]	—
Vale-Trac Global Eq Tst	[illegible]	[illegible]	[illegible]	—
Vantage Investment Management Ltd				
Vantage Global Invest	[illegible]	100.34	—	—
The Vietnam Frontier Fund				
Frontier Fund Management Co				
NAV (Fully Paid) Feb 29		$10.16	—	—
The Vietnam Fund Limited				
Lloyds Bank Fund Managers (Guernsey) Ltd				
NAV Fully Paid Jan 31		$11.12	—	—
Wells Fargo U.S. IT Fund				
Wells Fargo A Shs		[illegible]	—	—
Wells Fargo B Shs		[illegible]	—	—
Worldwide Limited				
NAV Jan 31		$80.83	—	—
Xiphias International Investment Fd Ltd				
Xiphias Global Growth		$9.77	—	—
Xiphias Int ECU A2		Ecu1.4257	—	—
Zanett Lombardier Ltd				
NAV Feb 1		$146.69	—	—
Zulauf Investment Management AG				
Zulauf Europe Ltd Mar 1		DM88.544	—	—
Zweig-DiMenna International Limited				
NAV Feb 29		$14370	—	—

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales.

(*) Funds not SIB recognised. The regulatory authorities for these funds are:

Bermuda - Bermuda Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(♥) - 0001 to 1100 hours
(♦) - 1101 to 1400 hours
(♣) - 1401 to 1700 hours
(♠) - 1701 to midnight
E - Exit charge on sale of units.
G - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
h - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance.
u - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
x - Offered price includes all expenses except agent's commission.
z - Previous day's price.
GG - Guernsey gross.
◆ - Yield before Jersey tax.
† - Ex-subdivision. xd - Ex-dividend.
‡ - Only available to charitable bodies
Φ - Yield column shows annualised rates of NAV increase.

LONDON STOCK EXCHANGE

MARKET REPORT

Company results depress the FT-SE 100 index

By Philip Coggan, Markets Editor

Investors' disappointment with an unexciting set of corporate results kept share prices under pressure for much of the session yesterday, and the FT-SE 100 index failed to come close to the all-time intra-day high recorded on Tuesday.

The main drag on the market was pharmaceuticals group Glaxo Wellcome, which disappointed investors with its dividend, cost reductions and sales of Zantac. The fall in Glaxo's price by itself knocked nine points off the Footsie.

Shares in some other leading companies fell after they reported figures, notably BAT Industries, Cadbury Schweppes and T&N.

"It's the first time the market has really been badly hit in the results season" said Mr Bob Semple, head of the equity strategy team at NatWest Securities. "None of the results were particularly awful and maybe it tells you something about the mood the market's in."

One analyst said the fall in Glaxo's shares might be a symptom of a sectoral shift in the market. Mr Richard Kersley, UK equity strategist at Barclays de Zoete Wedd, argued that "the market is looking for rate cuts and has a bias towards cyclicals. There is not much appetite for stocks in defensive sectors such as pharmaceuticals."

The glum mood was set early in the morning. Wall Street's strong close on Tuesday failed to give the London market much of a lift at the opening and the FT-SE 100 index started the day a modest 1.5 points higher at 3,778.6.

By 9.30am, Footsie was in negative territory where it stayed for the rest of the day. By the close, the leading index was 18.2 points lower at 3,758.9, marginally above its worst level of the session.

Mr Kersley said there might be disappointment that the market had failed to break through the top of its trading range, which seems to have a ceiling of 3,780-3,790.

There was little help from Wall Street where Treasury bonds were around three-quarters of a point lower by the close of London trading and the Dow Jones Industrial Average, after another zigzag start, was about 12 points adrift.

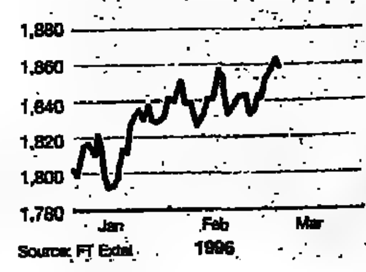
Not all was gloom, however. Once again, the FT-SE Mid-250 outperformed the senior index, rising 4.5 to a record 4,276.7. Special situations, particularly the management changes at House of Fraser and a sharp rise in South West Water, were a strong influence.

The market could also be due for a dose of cheer today or tomorrow if, as expected, the chancellor decides to cut base rates by a quarter of a percentage point.

But until bond markets stabilise, Footsie could struggle to make further progress. Mr George Hodgson, UK equity strategist at SBC Warburg, says that "there could be a pretty dull balance of 1996 ahead of us. While economists expect activity to pick up, inflation to remain low and interest rates to fall a bit, an awful lot of the good news is in the price." SBC Warburg is forecasting that Footsie will end the year at 3,750, just 9 points away from last night's close.

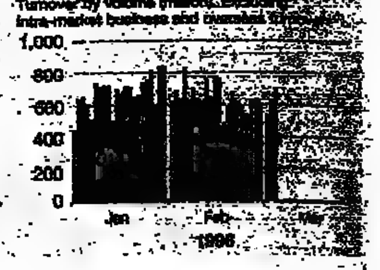
Volume was healthy, with 836.3m shares traded by the 6pm count. The value of customer business on Tuesday was around £1.9bn.

FT-SE-A All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3758.9	-18.2
FT-SE Mid 250	4276.7	+4.5
FT-SE-A 350	1882.3	-6.7
FT-SE-A All-Share	1858.65	-5.94
FT-SE-A All-Share yield	3.76	(3.74)
FT Ordinary index	2794.9	-13.0
FT-SE-A Non Fins p/e	17.24	(17.52)
FT-SE 100 Fut Mar	3783.0	-14.0
10 yr Gilt yield	7.81	(7.81)
Long gilt/equity yld ratio:	2.19	(2.20)

Best performing sectors

1 Water .... +1.3
2 Extractive Inds .... +1.1
3 Textiles & Apparel .... +0.5
4 Oil Exploration .... +0.4
5 Mineral Extraction .... +0.4

Worst performing sectors

1 Pharmaceuticals .... -2.2
2 Tobacco .... -1.9
3 Telecommunications .... -1.4
4 Consumer Goods .... -1.3
5 Electronic & Elec .... -1.0

Profit news hits Glaxo

Glaxo Wellcome, the world's biggest pharmaceuticals company, dragged down the London market with a share price fall of 44 to 876p.

Part further profit-taking, part disappointment over the full-year figures, the slide was responsible for taking more than 9 points off the Footsie. And turnover of 30m shares was one of the highest in eight years. Full-year figures came in at the bottom end of the range of analysts' forecasts as did the dividend.

ABN Amro Hoare Govett, joint broker to the company along with Cazenove, cut its recommendation to undervalued from a straight buy. And James Capel was believed to have issued a sell recommendation; the broker declined to comment. Forecasts are expected to be moved down over the next couple of days. Merrill Lynch was one of the first brokers to change its numbers, reducing its 1996 estimate by £110m to £3.085bn.

Mr Nigel Barnes of Merrill said: "There has been increasing concern over the prospects for Zantac [the company's headline anti-ulcer drug] and the figures show that sales and profit growth will be very much determined by Zantac."

Finally there was disappointment that the slowdown in Zantac sales was not being matched by a further reduction in costs.

Telecom tremors

Telecoms shares fell back smartly following a Department of Trade and Industry consultative document which hinted that the UK market for international calls could shortly be widened.

At the moment, BT and the Cable & Wireless Mercury system operate a duopoly. This is due to end in 1998 under EU regulations but yesterday the DTI suggested change could be implemented sooner.

International calls account for 15 per cent of BT's revenue and around 30 per cent at Mercury, and it is reckoned to be a fairly high margin business in each case. BT came off 9 to 367½p in 19m traded and C&W shed 4 to 450p.

Guinness top-up

Guinness flowed back and forth through the Footsie rankings, courtesy of share buyback talk flanked by tentative takeover rumours.

Most brokers took the bid suggestions with a pinch of salt but felt there was some basis to the buy-back hopes. Guinness sought shareholder approval for a buy-back several years ago and the story tends to gain currency whenever a company announcement comes round. The group results are due on March 21. One leading sector analyst said: "Around the 450p level, a 10 per cent buy-back would enhance earnings per share by some 3 per cent. But after the recent run it's all a bit more marginal."

Up 6 at one stage, the shares closed 3 better at 471p in above average turnover of 5m. They stood at 448p two weeks ago.

Telecoms shares fell back smartly following a Department of Trade and Industry consultative document which hinted that the UK market for international calls could shortly be widened.

Several big water stocks were stronger as Merrill Lynch reinforced its buy stance on the sector. The sector was sold off heavily at the start of the year after fund managers readjusted weightings, Anticipating increased political risk in the event of a Labour victory at the next election.

It appears that many investors now feel the worries of political risk are overdone and do not justify the sector's underperformance. South West Water lifted 30 to 538p and Thames 15 to 553p.

Cadbury Schweppes turned in the day's second worst Footsie performance, tumbling 19 to 536p after the chocolate-to-soft-drinks giant unveiled marginally disappointing results.

Some of the more optimistic brokers trimmed current year profit estimates but the main problem for the shares looked to be their sheer strength ahead of the numbers. Three weeks ago Cadbury stood at 520p: the stock topped out at 561p on Monday. Hillsdown Holdings added 5 to 181p ahead of today's results statement.

There was some surprise at the market's treatment of BAT Industries after the tobacco group's full-year figures. Profits were towards the top end of the range of forecasts, the dividend grew by 10 per cent and earnings by 8 per cent earnings. The shares were 7 higher at one stage but the company gave no clue to analysts about prospects for the coming year and concern ahead of some industry wide litigation in the US saw the stock fall back to end 11 lower at 561p.

House of Fraser shares improved on the announcement of management changes. News of the departure of Mr Andrew Jennings, the managing director, lifted the shares 11 to 188p on hopes of a new management team being appointed. Recent speculation in the market has focused on Mr David Dworkin, the former head of Storehouse, being appointed due to pressure from PDFM, the fund manager, but the company refused to comment either way.

Shortening odds on another reduction for interest rates, coupled with talk of a mortgage price war, kept the focus on housebuilders in the run-up to the all important spring selling season. However, the search for value appeared to widen yesterday.

Wilson Bowden pushed deeper into new high ground, adding 11 to 408p helped by a sector note from NatWest Securities, which had the shares on its preferred stock list. There was also support for smaller builders, notably loss-making Raine, up 4 at 19p, and Prowting, which added 2 to 110p. Bett Bros dipped 8 to 150p.

Arjo Wiggins Appleton tumbled 8½ but recovered to close 4½ lower at 202p on active two-way business ahead of figures today. Some investors have started to worry about supply in the European paper market, while enthusiasts argue that the stock is cheap following a slide from 280p last summer. Media group Emap jumped 27 to 612p on confirmation that it is to buy Tele Star, the French magazine company, for FFr1.4bn (£181m).

Channel tunnel operator Eurotunnel was the back marker in the FT-SE Mid 250. The shares, which have come down from 273p over the past year, closed off 4 at 77p.

Otherwise, engineering stocks dominated the bottom of the FT-SE Mid 250 rankings with both T&N and Vickers sliding more than 3 per cent.

Both companies announced annual results. T&N fell 6 to 165p with some brokers shaving profit estimates. Some marginal downgrades hit Vickers following the company's post-results meeting with analysts. Vickers came off 9 to 278p.

International Investment Trust of Jersey rose 50 to 835p after a paper offer from REA Holdings.

The FT-SE Actuaries committee announced the result of its quarterly review of the leading indices yesterday. There was no change to the Footsie but several moves in the FT-SE Mid 250 Index. In came Trinity International, HTV, Persimmon and CMG. Out went Takare, McBride, Babcock International and Amstrad.

FINANCIAL TIMES EQUITY INDICES

	Mar 6	Mar 5	Mar 4	Mar 1	Feb 29	Yr ago	*High	*Low
Ordinary Share	2794.9	2807.9	2791.3	2775.6	2756.4	2291.5	2807.9	2238.3
Ord. div. yield	3.86	3.82	3.84	3.86	3.88	4.60	4.73	3.76
P/E ratio net	16.84	17.08	16.98	16.88	16.76	16.42	21.39	15.35
P/E ratio nil	16.62	16.86	16.75	16.66	16.56	15.95	22.21	15.17

*For 1995/96. Ordinary Share index since compilation: high 2807.9 5/03/96; low 49.4 26/6/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2810.1	2812.0	2806.8	2803.4	2802.4	2800.6	2799.7	2802.8	2795.4	2813.3	2794.5

	Mar 6	Mar 5	Mar 4	Mar 1	Feb 29	Yr ago
SEAQ bargains	35,021	37,290	36,845	30,405	31,428	28,309
Equity turnover (£m)†	-	1899.8	1471.5	1865.5	1899.6	1649.3
Equity bargains†	-	43,115	44,782	32,437	36,322	39,655
Shares traded (ml)†	-	707.3	601.4	543.3	514.6	620.0

†Excluding intra-market business and overseas turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	600	Total Highs	143	Total contracts	40,178
Total Falls	540	Total Lows	18	Calls	22,707
Same	1654			Puts	17,471

Mar. 6 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	3781.0	3763.0	-14.0	3788.0	3756.0	11360	40044
Jun	3783.5	3765.0	-14.5	3790.5	3758.5	4641	25525
Sep	-	3781.5	-14.0	-	-	0	2355

FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	4290.0	+5.0	-	-	0	2912
Jun	-	4326.0	+5.0	-	-	0	1431

FT-SE 100 INDEX OPTION (LIFFE) (*3758) £10 per full index point

	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 4,159 Puts 3,579

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3575 C	3575 P	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P	3775 C	3775 P	3825 C	3825 P	3875 C	3875 P	3925 C	3925 P
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 809 Puts 2,784. * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995/96 High	1995/96 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E ratio
-	F.P.	82.7	527	498	BZW Eq (Broadc)	[illegible]	[illegible]	-	-	-	-
-	F.P.	6.25	6½	5¼	†Ballynatray	[illegible]		-	-	-	-
-	F.P.	1.55	[illegible]	2	†Capital & Wstm	[illegible]		-	-	-	-
7.5	F.P.	[illegible]	6½	5¾	Clubhaus	[illegible]		-	-	-	-
-	F.P.	[illegible]	5½	3¼	Clubhaus Wts	[illegible]		-	-	-	-
-	F.P.	11.8	90	69	†Dmalek	[illegible]		-	-	-	-
-	F.P.	13.3	[illegible]	11	Ex-Lands Props	[illegible]		[illegible]	-	[illegible]	-
-	F.P.	0.19	15½	8½	Ex-Land Wts	8½		-	-	-	-
12	F.P.	68.8	16½	15	†Freepages	15½		-	-	-	-
-	F.P.	31.3	143	108	†IOC Intl	126	+3	-	-	-	-
-	F.P.	24.7	53	52	Inn Business	52		-	-	-	-
-	F.P.	0.13	8	8	†Nthrn Prtm Wts	8		-	-	-	-
-	F.P.	[illegible]	71	66	†Optical Care (S)	66		-	-	-	-
-	F.P.	[illegible]	108	100	†Revelation P'dity	105		-	-	-	-
54	F.P.	2.92	60	60	†Self Sealing Sys	60		-	-	-	-
175	F.P.	124.8	223	198	Shire Pharms	205	+1	-	-	-	-
-	F.P.	0.97	9	6	†SkyePharma Wts	8	-¼	-	-	-	-
180	F.P.	111.0	188	179	Streamline	179	-1	W7.7	1.7	5.4	13.5
185	F.P.	105.6	230	218	Visual Action	230		R4.7	2.9	2.6	16.8

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Mar 5	% chg on day	Mar 4	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	2237.78	-1.4	2268.87	1688.31	1.48	-	2638.73	1688.31
Regional indices								
Africa (16)	2954.34	-4.6	3098.37	2824.26	2.90	34.43	3553.86	2272.74
Australasia (5)	2722.85	-3.7	2828.72	1942.24	2.28	41.49	2827.34	1920.15
North America (12)	1965.31	+0.6	1955.85	1404.28	0.86	59.40	2160.39	1404.28

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FT - SE Actuaries Share Indices — The UK Series

	Mar 6	Day's chge%	Mar 5	Mar 4	Mar 1	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3758.9	-0.5	3777.1	3768.6	3762.7	2992.1	3.82	2.06	15.87	25.03	1612.71
FT-SE Mid 250	4276.7	+0.1	4272.2	4244.9	4235.4	3300.9	3.45	1.78	20.54	35.56	1898.82
FT-SE Mid 250 ex Inv Trusts	4298.2	+0.1	4293.2	4264.4	4256.2	3306.4	3.57	[illegible]	19.26	37.89	1709.80
FT-SE-A 350	1882.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350 Higher Yield	1870.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350 Lower Yield	1900.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE SmallCap ex Inv Trusts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A ALL-SHARE	1858.65	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-SE Actuaries All-Share

	Mar 6	Day's chge%	Mar 5	Mar 4	Mar 1	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
12 Extractive Industries(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
15 Oil, Integrated(3)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
16 Oil Exploration & Prod(15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
20 GEN INDUSTRIALS(275)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
21 Building & Construction(34)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22 Building Matls & Merchs(29)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
23 Chemicals(23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
24 Diversified Industrials(21)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25 Electronic & Elect Equip(36)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26 Engineering(70)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27 Engineering, Vehicles(13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
28 Paper, Pckg & Printing(26)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29 Textiles & Apparel(18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30 CONSUMER GOODS(91)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
32 Alcoholic Beverages(9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
33 Food Producers(23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Household Goods(15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
36 Health Care(20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
37 Pharmaceuticals(13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
38 Tobacco(1)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 SERVICES(253)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Distributors(32)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Leisure & Hotels(28)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Media(46)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44 Retailers, Food(15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Retailers, General(43)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47 Breweries, Pubs & Rest.(24)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48 Support Services(48)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 Transport(21)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
60 UTILITIES(35)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Electricity(12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
64 Gas Distribution(2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Telecommunications(7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Water(12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 NON-FINANCIALS(666)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 FINANCIALS(108)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Banks, Retail(8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
72 Banks, Merchant(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
73 Insurance(24)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
74 Life Assurance(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
77 Other Financial(23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
79 Property(41)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
80 INVESTMENT TRUSTS(126)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
89 FT-SE-A ALL-SHARE(900)	1858.65	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A Fledgling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A Fledgling ex Inv Trusts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Time of FT-SE 100 Day's high: [illegible] Day's low: [illegible]

FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pharmaceuticals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Water	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banks, Retail	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 Index constituent. All trades are rounded. Source: FT Extel.

WORLD STOCK MARKETS

EUROPE

Rockwell components for heavy and medium duty trucks and trailers keep businesses on the road to exceptional performance

Rockwell

PACIFIC

AFRICA

NORTH AMERICA

US INDICES

Dow Jones	Mar 5	Mar 4	Mar 1	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Industrials	5642.42	5600.15	5536.56	5642.42 (5/3/96)	3832.08 (30/1/95)	5642.42 (5/3/96)	41.22 (2/7/32)
Home Bonds	104.88	104.81	104.88	108.89 (14/2/96)	93.63 (3/1/95)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2090.82	2108.24	2068.53	2111.37 (22/2/96)	1473.19 (3/1/95)	2111.37 (22/2/96)	12.32 (8/7/32)
Utilities	223.38	224.20	221.40	234.00 (12/2/96)	183.03 (3/1/95)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5655.78 (5646.39) Low 5558.34 (5511.98) (Theoretical◆)
Day's high 5642.42 (5629.06) Low 5577.39 (5537.65) (Actual◆)

Standard and Poors	Mar 5	Mar 4	Mar 1	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Composite‡	655.79	650.81	644.37	661.45 (12/2/96)	459.11 (3/1/95)	661.45 (12/2/96)	4.40 (1/6/32)
Industrials♥	770.78	764.45	756.65	776.23 (22/2/96)	548.28 (3/1/95)	776.23 (22/2/96)	3.62 (21/6/32)
Financial	68.56	68.01	67.26	68.56 (5/3/96)	41.64 (3/1/95)	68.56 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	350.75	348.87	345.18	351.70 (12/2/96)	250.73 (3/1/95)	351.70 (12/2/96)	4.46 (25/4/42)
Amex Mkt Val	569.15	567.04	563.44	570.16 (22/2/96)	[illegible] (6/1/95)	570.16 (22/2/96)	29.31 (9/12/72)
NASDAQ Comp	1096.81	1084.88	1086.08†	1117.79 (23/2/96)	743.58 (3/1/95)	1117.79 (23/2/96)	54.87 (31/10/72)

■ RATIOS

	Mar 1	Feb 23	Feb 16	Year ago
Dow Jones Ind. Div. Yield	2.15	2.12	2.16	2.73
	Feb 28	Feb 21	Feb 14	Year ago
S & P Ind. Div. yield	1.89	1.88	1.87	2.36
S & P Ind. P/E ratio	20.83	19.90	20.07	19.60

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Hanson	10,853,300	15	-¼
Micron Tech	12,478,000	31¼	-¾
Bay Network	8,151,500	36⅝	+3¼
Compaq	7,743,100	40	—
K-Mart	7,134,300	7⅝	+¼
Seagate Tech	6,375,800	57⅛	-1
Wal-Mart	6,219,300	22⅜	+½
Teradyne	4,409,000	18⅝	-¼
Grace WR	4,163,400	77⅝	+9¼
EMC	4,101,900	20⅛	—

■ TRADING ACTIVITY

● Volume (million)

	Mar 5	Mar 4	Mar 1
New York SE	437.421	419.88	474.61
Amex	17.855	22.666	26.487
NASDAQ	503.221	485.115	599.334
NYSE			
Issues Traded	3,130	3,093	3,067
Rises	1,217	1,626	1,423
Falls	[illegible]	764	896
Unchanged	787	703	748
New Highs	150	176	110
New Lows	13	17	22

■ S&P 500

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	657.30	657.00	-0.45	657.00	656.10	85,887	149,768
Jun	663.00	663.30	-0.45	663.20	662.30	16,433	67,733

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	20190.0	20270.0	+10.0	20330.0	19980.0	9,378	105,090
Jun	20200.0	20340.0	+50.0	20370.0	20010.0	42,606	193,405

Open interest figures for previous day.

● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ... day's highs and lows are the averages of the highest and lowest prices reached during the day by each ... highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached ... ckers are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Wednesday, March 6, 1996

	Stocks Traded	Closing Prices	Change on day
Shinko Electric	18.5m	899	+64
Keisei Elect Ry	13.1m	1020	+43
Nomura Secs	12.6m	2150	+10
Sumitomo Mtl Ind	12.3m	298	+1
Toshiba Corp	12.3m	787	-14
Kobe Steel	8.8m	295	-3
Toyo Umpanki	8.6m	609	+39
Nippon Mtl Ind	7.8m	612	+42
Nippon Paper	6.4m	724	-13
NKK Corp	5.7m	263	-4

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. ... † Priced in US $.

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4 pm close March 6

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995/96 High	Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Chg'e Prev. Close
22 1/8	12 1/8	AAR	0.48	2.3	24	745	21	20 1/2	20 1/2	-1/4
46 1/4	35	AMP	1.00	2.3	21	3046	43 1/2	42 3/4	42 3/4	-7/8
89 3/4	53 3/8	AMR			35	3169	89	87 1/4	87 3/4	-1/4
50 1/2	36 3/8	ASA	2.00	4.4	29	515	45 1/2	44 7/8	45 1/8	+1/8
44 3/4	30 3/4	AbbttL	0.96	2.2	20	7072	43 5/8	42 7/8	43 1/8	-1/8
19 7/8	12	Abitibi Pr x	0.40	2.9	7	197	14	13 7/8	14	
30 5/8	21	ABM Ind	0.70	2.3	16	54	30 1/2	30 1/8	30 1/8	-1/8
17 1/2	13 1/8	Acpincein			10	158	14 7/8	14 5/8	14 3/4	
50 1/8	21 7/8	ACE Ltd	0.56	1.2	11	1101	47 3/4	47 1/4	47 1/2	-1/4
9 7/8	8 1/8	ACM Gvt In x	0.90	9.4	8	80	[illegible]	9 5/8	9 5/8	-1/8
7 7/8	6 1/2	ACM GvOpp x	0.66	8.7		66	7 3/4	7 5/8	7 5/8	-1/8
7 1/2	5 3/4	ACM Gvt Sp x	0.75	10.7		268	7 1/8	7	7	-1/8
9 1/2	7 1/4	ACM Gvt Se x	0.90	10.1		171	9	8 7/8	8 7/8	-1/8
9 1/2	7 5/8	ACM Man x	0.90	9.6		600	[illegible]	9 1/4	[illegible]	
29 1/4	10 1/4	AcmeCiv	0.52	2.6	4	132	20 1/2	19 5/8	20	+1/2
38 3/4	6 1/2	Acme Elect			55	146	6 5/8	d6 1/2	6 5/8	
34 1/2	23 3/4	Acordia	0.72	2.6	15	z100	27 7/8	27 7/8	27 7/8	-1/8
16 3/4	10 1/8	Acuson			48	617	15 3/4	15 1/2	15 5/8	+1/8
19 5/8	15 5/8	Adams Expr	0.36	1.9	0	136	19 3/8	19 1/4	19 1/4	
38 7/8	16 1/8	AdvMic			6	8349	18 5/8	17 3/4	17 7/8	-1
10 1/4	5	Advest Grp	0.16	1.7	9	41	9 3/4	9 5/8	9 5/8	-1/8
27 1/2	12 1/4	Advo Inc	0.10	0.8	12	2020	12 1/2	d12 1/4	12 1/4	+1/4
46 3/4	24.80	Aegon	1.28	2.9	16	278	43 7/8	43 1/2	43 5/8	-1/2
5 7/8	3 3/8	Aerfix			8	221	4 7/8	4 3/4	4 3/4	
78 5/8	46 3/4	AetnaL	2.76	3.5	37	6056	u78 5/8	76 1/8	78 1/2	+2 1/8
49 1/2	31 7/8	Aflac	0.52	1.1	14	2348	48 1/2	47 5/8	48 1/8	
28 5/8	10	Ahmnsn	0.88	3.6	72	3524	24 3/8	23 7/8	24 3/8	+3/8
58 1/2	43 7/8	AirPrC	1.04	1.9	16	4428	55 7/8	54	55 1/8	+1 1/8
29 1/2	18 3/8	Airbne Frt	0.30	1.1	26	861	27 7/8	27 5/8	27 7/8	+1/8
38 7/8	19 5/8	Airgas Inc			33	333	u38 7/8	38	38 7/8	+1
19 3/8	13 3/8	Airlease	2.00	11.0	12	77	18 1/4	18 1/8	18 1/4	-1/8
35 5/8	24	AirTch			116	5602	32	31 1/4	31 3/8	-5/8
23 1/2	13 1/2	Alaska Air	0.20	0.9	17	1553	u23 1/2	23	23	+1 1/8
26 1/2	17 1/8	Albany Int	0.40	2.1	19	77	19 1/2	19 3/8	19 3/8	-1/8
21 7/8	12 3/4	Alberti x	0.22	1.0	18	2412	21 5/8	21 1/2	21 1/2	
39 1/8	25 7/8	AlbCuS	0.36	0.9	20	422	39	37 3/4	38 1/4	+5/8
36	23	AlCulvr A	0.36	1.0	17	141	35	34 1/8	34 1/2	+1/2

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4 pm close March 6

NYSE COMPOSITE PRICES

1995/96 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg. Prev. Close
Continued from previous page										
10⅝	6	SantaFeERs	0.16	1.7	102	3048	9½	9¼	9¼	
18¼	9	SFeGd	0.05	0.3	49	3714	15⅛	14¾	14⅞	
38⅝	30½	SFePPipe	3.00	8.0	18	65	37⅞	37⅝	37⅝	-⅛
35½	24¼	SaraLee x	0.76	2.2	20	7142	35	34½	34¾	+⅛
60¼	38⅝	SBC Cm	1.65	3.0	17	3945	56⅛	55	55⅛	-⅜
28⅝	20½	Scana Corp	1.47	5.5	15	3143	27⅝	26¾	26⅞	-¾
11¼	5⅞	SchawkA	0.26	2.9	30	11	9	8⅞	8⅞	
50¾	37¼	SchererRP			23	274	45⅜	44½	45¼	+⅝
60¾	38½	SchPl	1.16	2.0	24	11272	59½	58⅝	59⅜	+½
78	50⅛	Schlmb	1.50	2.0	27	10183	75⅞	73⅛	75¼	+2⅛
29	11¼	Schwab(C)	0.18	0.6	27	2061	28¾	28⅛	28⅝	+⅛
28⅞	20⅞	SchwMaud				392	28¾	28⅜	28⅜	-¼
24⅞	11⅞	SciAtl x	0.06	0.4	38	2175	17	16½	16½	-⅝
20	15⅛	Scotsmn	0.10	0.6	10	77	17¾	17⅜	17⅜	-½
43½	28⅞	Scripps x	0.52	1.2	25	178	43⅛	42⅞	43	
21½	13⅞	ScudderNAsF	0.02	0.1		60	16¾	16⅝	16⅝	-⅛
11⅞	8⅝	ScudderNEuF	0.16	1.4		287	u11⅞	11⅝	11¾	
20	13⅞	SeaCnB	0.70	4.2	1	z100	16½	16½	16½	
16¼	14⅝	SeaC1.4625	1.46	9.3		9	15¾	15½	15¾	
67¾	23⅝	S'gate			11	28605	59¼	58	58⅛	-⅜
39½	28⅝	Seagrm	0.60	1.7	24	2651	35	34⅞	35⅛	-⅞
22½	15¾	Seagull En			975	5734	19⅝	19	19½	
32⅝	18	Sealed Air			23	282	29⅝	29½	29½	+⅛
50	30⅞	SearsR x	0.92	1.9	12	8223	49	47⅝	47⅞	-1⅛
21⅞	18⅛	SecCapSBI	1.24	5.7	25	311	21¾	21½	21¾	+¼
13	10⅝	Seligm Sel	0.84	6.7		23	12⅝	12⅝	12⅝	-⅛
38¼	13⅝	Sensormat	0.22	1.0	80	5176	22⅞	22⅜	22½	-⅛
35⅝	21⅞	SeqnaA	0.60	1.7	16	13	u35⅝	35¼	35⅝	+⅛
41⅝	23	SequaB	0.50	1.2	22	19	41½	41	41½	+¾
47½	28¼	SernCp	0.48	1.0	25	1177	u47½	[illegible]	[illegible]	[illegible]

[illegible]

- V -

[illegible]

- W -

[illegible]

- U -

[illegible]

- T -

[illegible]

- X - Y - Z -

[illegible]

AMEX COMPOSITE PRICES

4 pm close March 6

[illegible]

NASDAQ NATIONAL MARKET

4 pm close March 6

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- B -

[illegible]

- C -

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AMERICA

Tech stocks weak on warning from Texas

Wall Street

US shares were mixed in mid-session trading as computer-related technology issues gave back some of Tuesday's sharp gains, while broader indices were mostly flat, *writes Lisa Bransten in New York.*

At 1 pm the Dow Jones Industrial Average was 3.25 stronger at 5,645.67, while the Standard & Poor's 500 slipped 0.76 at 655.03. The American Stock Exchange composite rose 0.31 at 569.46. Volume on the NYSE came to 241m shares.

For the second consecutive session the Dow outperformed the S & P as the broader indices mostly shrugged off losses on the bond market which had been caused by an unexpectedly strong gain in fourth quarter employment costs.

Uncertainty about whether the Federal Reserve would lower interest rates at this month's meeting of its Open Market Committee continued to weigh on both the stock and bond markets.

Meanwhile, computer-related technology issues were mostly lower, driven in part by a warning from Texas Instruments that it expected growth in the international market for semiconductors to be slower than it had thought. Shares in Texas Instruments fell $2 at $48¾ and sent many other companies in the chip business makers lower. LSI Logic fell $1⅛ at $26⅝, Micron Technology was off $1¼ at $30, Applied Materials shed 1\frac{1}{16}$ at $33¾ and Novellus Systems was off $2½ at $47. The Nasdaq composite, which is about 40 per cent weighted towards technology issues, fell 2.93 at 1,093.88, and the Pacific Stock Exchange technology index was 0.8 per cent lower.

The Nasdaq got some support from a continuation of the recent rally in biotechnology shares as the American Stock Exchange biotechnology index added 1.3 per cent. In individual shares, Chiron rose $3 at $118, Genzyme was $1½ stronger at $74¾ and Amgen climbed $¾ at $65.

Gibson Greetings rose 2\frac{5}{16}$ at 16\frac{15}{16}$ after American Greetings confirmed that it had made an offer to buy its rival for $18 a share. Gibson said that it had rejected the overture and American Greetings rose $¼ at $28¾. Nike jumped $3¾ or 6 per cent at $73¼ after Morgan Stanley raised its investment rating of the sports shoe and clothing company to "strong buy" from "neutral".

Canada

Toronto was mixed in subdued midsession trade as the market awaited the federal budget statement scheduled for late in the day.

The TSE-300 composite index was down 14.34 by noon at 4,981.60 in volume of 43.3m shares.

Heavily weighted gold stocks firmed as bullion prices saw a slight rebound but base metals, conglomerates and transports were easier.

Mark Resources picked up C$¼ to C$8¼ after the company said that shareholders would have the opportunity to vote on a reorganisation plan on April 2.

Potash Corp of Saskatchewan fell C$3¼ to C$97¾ and Newbridge Networks slipped C$⅞ to C$69½.

SOUTH AFRICA

A generally firmer Johannesburg came under pressure in late trade as futures market arbitrageurs began to unwind baskets of shares ahead of the March 15 expiry. Industrials found support from Wall Street's continued overnight strength, while golds returned to favour after Tuesday's sharp sell-off. The overall index was up 26.3 at 6,678.3, industrials inched up 4.9 to 8,338.2 and golds made 35.6 to 1,704.2. De Beers rose 225 cents to R24.75 and Anglos ended R2.50 better at R248.50.

Rate worries weigh on Mexico

In MEXICO CITY worries about a rise in domestic interest rates weighed on sentiment. The IPC index was off 14.83 at 2,842.34 by mid-session.

SAO PAULO was off 2 per cent by midday, with the Bovespa index down 1,034.85 at 50,945 as investors awaited a debate in congress on pension law reform.

● Bear Stearns in New York yesterday raised its weighting on Chile in its model portfolio to overweight from neutral and cut its recommended exposure in Peru to neutral from overweight.

Mr Geoffrey Dennis, head of Latin American equity research, said that he expected investors to seek a "safe haven" in Chile in the near-term, while the rest of Latin America showed little improvement.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: Mar. 1 1996	% Change over week	% Change on Dec '95	Local currency terms: Mar. 1 1996	% Change over week	% Change on Dec '95
Latin America	(248)	497.82	-2.8	+6.8			
Argentina	(31)	810.51	-3.3	+1.2	497,186.02	-3.3	+1.2
Brazil	(69)	547.28	-3.7	+13.8	1,278.19	-3.5	+15.1
Chile	(43)	720.67	+1.3	-3.7	1,188.64	+1.2	-2.5
Colombia[1]	(15)	613.27	+0.8	+2.5	1,130.30	+1.1	+7.7
Mexico	(65)	476.28	-3.6	+5.1	1,559.22	-2.5	+3.5
Peru[2]	(21)	205.75	-3.2	+4.8	297.75	-3.5	+7.2
Venezuela[3]	(8)	336.86	-11.9	+0.4	3,673.26	-6.7	+40.7
Asia	(631)	251.06	-0.3	+8.1			
China[4]	(23)	60.47	-2.6	+11.8	63.51	-2.6	+11.8
South Korea[5]	(146)	121.07	-2.9	-3.9	124.56	-2.8	-3.0
Philippines	(35)	288.09	-0.5	+11.0	364.35	-0.4	+10.8
Taiwan, China[6]	(83)	106.75	+0.3	-5.3	110.23	+0.3	-4.6
India[7]	(76)	92.14	+2.6	+14.7	113.04	-2.1	+12.6
Indonesia[8]	(44)	122.87	-1.7	+12.1	154.69	-1.6	+13.5
Malaysia	(123)	299.13	+0.8	+10.3	260.96	+0.5	+10.6
Pakistan[9]	(25)	269.15	-9.4	+19.2	451.27	-9.2	+19.7
Sri Lanka[10]	(5)	121.06	-4.0	+16.3	140.91	+4.0	+16.6
Thailand	(72)	385.59	-1.6	+2.6	386.14	-1.5	+2.7
Euro/Mid East	(238)	152.11	+0.1	+7.4			
Greece	(47)	266.35	+3.6	+10.3	436.46	+4.4	+12.8
Hungary[11]	(8)	145.66	+3.7	+48.0	249.73	+4.8	+54.3
Jordan	(8)	183.50	+0.1	-0.6	273.88	+0.1	-0.6
Poland[12]	(22)	692.57	+6.9	+39.0	957.57	+7.7	+44.6
Portugal	(26)	125.77	-2.1	+8.6	132.29	-0.6	+11.3
South Africa[13]	(63)	257.44	-2.5	-0.2	207.04	-1.4	+6.6
Turkey[14]	(54)	159.21	+12.5	+52.4	4,998.78	+14.1	+67.2
Zimbabwe[15]	(5)	324.65	-8.3	+18.2	463.57	-8.0	+20.3
Composite	(1117)	295.09	-0.9	+7.0			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10)Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Aug 2 1993; (15)July 2 1993.

Picking the right emerging market country in which to invest has been a more important criterion than picking the right sector or stocks, according to an analysis of 11 years of IFC data by Mr Vikas Nath, a UBS strategist, *writes John Pitt.*

Mr Nath believes that picking the right stocks should be secondary to selecting the right country, so much so that "country call" accounts for the largest part of relative performance.

His data, using the components of the IFC Global index, confirms that only once in the past 11 years "has an equal weighted portfolio of the 10 best performing stocks in the worst emerging market outperformed a similar portfolio of the 10 worst stocks in the best emerging market".

Although the exception was last year, Mr Nath feels that this was an exception to the rule and that it does not signal a change in investment approach.

He has also teased out of the mass of data which he has analysed the no less significant fact that a European or Japanese index fund would have performed better in dollar terms over the past 10 years.

However, the volatility risk attached to investing in emerging markets has also not been as high, he has found, as popular belief would suggest.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY MARCH 5 1996: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY MARCH 4 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (81)	201.17	-0.8	185.20	133.68	154.67	176.12	-0.8	3.87	202.74	196.70	134.74	155.55	177.47	202.74	158.79	163.34
Austria (26)	183.99	-1.3	178.53	122.26	141.46	141.29	-1.1	1.62	186.39	180.82	123.87	143.00	142.83	199.28	169.11	189.36
Belgium (34)	212.60	0.1	206.30	141.28	163.46	159.37	0.3	3.31	212.45	206.12	141.29	163.00	158.91	215.81	172.97	176.17
Brazil (28)	162.41	1.0	157.60	107.92	124.87	293.96	1.0	1.57	160.81	156.01	106.87	123.36	291.02	170.25	86.06	118.68
Canada (101)	156.16	0.5	151.53	103.77	120.06	155.00	0.5	2.42	155.35	150.72	103.25	119.19	154.27	158.71	125.64	126.54
Denmark (33)	302.16	-0.4	293.20	200.79	232.32	234.79	-0.1	1.61	303.26	294.23	201.55	232.66	235.18	305.17	252.41	256.60
Finland (24)	184.00	0.7	178.55	122.27	141.47	177.23	1.1	2.41	182.79	177.34	121.48	140.24	175.37	276.11	171.13	180.41
France (98)	189.46	-0.7	183.84	125.90	145.67	150.56	-0.6	3.05	190.84	185.16	126.83	146.42	151.44	191.17	161.53	166.78
Germany (60)	172.27	-0.5	167.17	114.48	132.45	132.45	-0.3	1.85	173.19	168.03	115.10	132.88	132.88	172.79	142.25	153.90
Hong Kong (58)	447.48	1.8	434.22	297.36	344.08	444.20	1.5	3.22	438.54	425.44	292.12	337.24	436.29	451.19	323.87	334.15
Ireland (16)	259.24	-0.5	251.55	172.27	199.32	232.62	-0.2	3.40	260.43	252.67	173.08	199.82	233.20	262.70	205.44	215.54
Italy (59)	78.05	0.1	75.73	51.86	60.01	90.50	0.3	1.67	77.96	75.63	51.81	59.81	90.25	82.71	66.45	72.98
Japan (482)	148.89	-0.1	144.47	98.94	114.47	98.94	-0.1	0.77	149.08	144.64	99.08	114.38	99.08	164.82	131.75	146.16
Malaysia (107)	546.31	1.6	530.11	363.03	420.04	535.10	1.5	1.58	537.48	521.45	357.21	412.38	527.03	561.96	425.77	486.50
Mexico (18)	1102.83	-0.8	1069.50	732.70	847.77	9141.14	-0.6	1.52	1111.49	1078.36	738.69	852.78	9199.33	1237.14	647.81	784.15
Netherland (19)	280.43	-0.1	272.11	186.35	215.61	211.91	0.1	3.24	280.81	272.44	186.62	215.45	211.68	283.23	227.76	228.69
New Zealand (13)	81.62	0.0	79.20	54.23	62.75	64.18	-0.3	4.65	81.63	79.20	54.25	62.63	64.38	85.49	72.39	73.11
Norway (33)	240.09	0.5	232.97	159.54	184.58	209.78	0.7	2.43	238.85	231.71	158.72	183.24	208.31	243.79	202.76	209.83
Singapore (44)	446.36	-0.1	433.12	296.61	343.19	290.34	-0.2	1.38	447.05	433.73	297.11	343.00	290.95	465.21	346.10	354.22
South Africa (45)	387.78	-0.2	376.29	257.69	298.15	328.23	-0.9	3.16	388.60	377.03	258.26	298.15	331.25	437.76	311.89	311.89
Spain (37)	161.86	-1.7	157.06	107.56	124.45	153.55	-1.5	3.04	164.59	159.68	109.38	126.28	155.94	176.88	124.10	135.40
Sweden (47)	333.23	-1.4	323.35	221.43	256.21	337.75	-1.1	2.29	337.89	327.82	224.56	259.25	341.52	342.56	232.25	239.18
Switzerland (38)	231.88	-0.6	225.00	154.08	178.28	172.81	-0.5	1.57	233.18	226.23	154.97	178.91	173.69	238.65	171.94	175.26
Thailand (46)	180.50	-0.4	175.14	119.94	138.78	176.53	-0.4	2.02	181.18	175.79	120.42	139.01	177.22	193.95	130.15	143.80
United Kingdom (205)	233.22	0.2	226.30	154.98	179.31	226.30	0.3	4.03	232.66	225.73	154.63	178.51	225.73	235.50	193.41	198.11
USA (631)	267.96	0.8	260.01	178.06	206.02	267.96	0.8	2.16	265.96	258.03	176.76	204.06	265.96	269.11	197.20	196.73
Americas (778)	244.31	0.7	237.06	162.34	187.84	205.38	0.7	2.16	242.52	235.30	161.18	186.08	203.89	245.54	180.00	181.72
Europe (730)	205.86	-0.3	199.76	136.80	158.28	178.62	-0.1	3.00	206.41	200.26	137.18	158.37	178.89	206.61	169.63	174.58
Nordic (137)	289.44	-0.7	280.86	192.33	222.54	253.56	-0.5	2.20	291.61	282.92	193.80	223.74	254.79	295.02	222.22	231.23
Pacific Basin (832)	163.18	0.0	158.32	108.42	125.44	111.55	0.0	1.20	163.08	158.22	108.38	125.13	111.52	171.87	148.89	153.57
Euro-Pacific (1562)	180.85	-0.1	175.49	120.17	139.05	136.93	-0.1	2.05	181.04	175.64	120.32	138.90	137.01	183.39	156.92	162.23
North America (732)	[illegible]	0.7	253.32	173.48	200.72	260.41	0.7	2.17	259.13	251.41	172.22	198.82	258.49	262.26	192.77	194.29
Europe Ex. UK (525)	186.28	-0.6	180.76	123.78	143.22	151.74	-0.4	2.42	187.31	181.72	124.48	143.71	152.31	187.97	152.92	157.38
Pacific Ex. Japan (350)	293.43	0.8	284.73	194.98	225.60	256.91	0.7	2.89	291.24	282.56	193.56	223.45	255.07	298.43	229.25	295.85
World Ex. US (1754)	182.23	-0.1	176.83	121.10	140.11	141.15	-0.1	2.08	182.39	176.96	121.22	139.94	141.28	184.71	158.85	162.28
World Ex. UK (2180)	206.39	0.3	200.27	137.15	158.68	172.82	0.3	1.92	205.82	199.69	136.79	157.91	172.31	207.64	170.18	170.66
World Ex. Japan (1903)	241.82	0.4	234.65	160.56	185.77	227.95	0.4	2.50	240.68	233.51	159.95	184.66	227.00	242.17	187.55	189.71
The World Index (2385)	208.78	0.3	202.59	138.74	160.52	177.85	0.3	2.11	208.21	202.01	138.38	159.75	177.13	208.73	172.24	173.16

Latest prices were unavailable for this edition.

EUROPE

Conti, Porsche appeal in flat Frankfurt

The best news in FRANKFURT came from the automotive industry as the Dax index slipped 1.14 to 2,471.38. More than doubled profits left Continental, the tyremaker, up 70 pfg, or 2.8 per cent, at DM25.70, while Porsche, whose chairman said it was moving back into the fast lane, saw its prefs up DM10 at DM810.

Mr Hans-Peter Wodniok of Crédit Lyonnais said that the early snows had given Conti's winter tyre business a late kick in 1995, and maybe a good start to 1996. However, he preferred prospects for 1997, when the enormous price pressure on original equipment tyres should be relieved, and when improved gearing, and the group's restructuring programme, due to be concluded this year, should pay off.

Turnover fell from DM9bn to DM7.6bn. Nervousness about today's Adidas results left the shares another DM2.50 lower at DM91.70; deeply pessimistic, Bremer Vulkan dropped DM3.95, or nearly 24 per cent, to DM12.75.

ZURICH returned to its record setting ways, the SMI index punching through strong resistance at 3,400 to finish 24.9 higher at 3,408.3 aftera positive performance from pharmaceuticals.

Ciba registered jumped SFr38 to SFr1,125 on speculation that the company might be about to announce a major acquisition or merger. Roche certificates picked up SFr25 to SFr9,345 and Sandoz rose SFr14 to SFr1,155.

Financials were mostly firmer. SBC rose SFr7 to SFr417, with some switching reported from CS Holding.

PARIS found some news in Michelin as the CAC-40 index rose 3.95 to 2,005.89. The tyremaker, up FFr4.30 at FFr238.10, was helped by comments from a number of sources at the Geneva motor show which suggested that there had been a significant rise in car sales during February. In addition, JP Morgan, in a review of the global automotive industry published this week, picked out Michelin for its growth potential.

Canal Plus and Havas were both suspended just before the close pending an announcement on a European digital television service in co-operation with BSkyB of the UK and Bertelsmann of Germany. Before suspension Canal Plus was off FFr2 at FFr914 and Havas had slipped 70 centimes to FFr379.30.

AMSTERDAM was trapped in a narrow range as the AEX index eased 0.95 to 518.23. Hoogovens slipped Fl 1.10 to Fl 65 ahead of today's results which were due to be released before the start of trading. A consensus forecast put 1995 earnings per share at Fl 16, falling to Fl 12 in 1996.

MILAN took profits in thin trade on a weaker lira and bond market declines; the Comit index fell 7.22 to 613.70, investors largely ignoring positive inflation figures.

In active telecoms, Tim fell L44 to L2,898 as the group claimed that its rival in the domestic GSM digital telephone sector, Omnitel, had failed to meet its territorial coverage targets, blocking a deal over access to telephone networks. Olivetti, which has 41 per cent of Omnitel, lost L7.7 to L876.8. Telecom Italia was L68 down at L2,606 and Stet fell L84 to L4,813.

Generali fell L848 to L37,514 in spite of its announcement of a 13.8 per cent increase in 1995 group premium income.

MADRID remained confused in the aftermath of Sunday's general election. While forecasts had seen another decline, the general index recovered 5.28, or 1.6 per cent to 329.38, turnover staying high at about Pta57bn; dealers felt that the trend was still downwards.

HELSINKI had to field a 1.7 per cent drop in forestries on the bleak outlook for pulp prices, and Raisio, the foodstuffs and chemicals group, fell another FM14 to FM130 for a two day drop of 19.3 per cent on the apparent disappearance of recent US interest in the stock.

The Hex index, however, closed just 4.82 lower at 1,842.05. Nokia A helped, up DM3.50 at DM169.50 following Tuesday's tech stocks revival on Wall Street, and Neste rose FM3.90 top FM81.90, although it said that hopes of an imminent sale of its half share in Borealis, the chemicals operation, were premature.

In east Europe, BUDAPEST hit its third successive all-time high. Foreign demand remained strong as the Bux index rose 42.67 to 2,890.01. PRAGUE's momentum was also unabated and the market registered its eighth successive gain, as the PSE index added 4.6 to 480.2. WARSAW, meanwhile, attained its third consecutive 18-month high, but many analysts warned that the market now appeared to have peaked and expected a correction soon. The Wig index rose 1.3 per cent to 11,810.8 but turnover fell 9.1 per cent to 200.2m zlotys.

ISTANBUL struck an all-time high as satisfaction about the formation of a new centre-right coalition government spilled over into the equity market. The composite index rose 1,501.28 or 2.3 per cent to 66,328.28.

TEL AVIV, which had been closed on Tuesday for a public holiday, resisted the sharp falls that had been forecast following four recent bombings.

The Mishtanim index closed 2.65, or 1.3 per cent lower at to 206.68 in turnover of Shk84m against Monday's Shk75m. First International Bank of Israel rose 2.5 per cent to Shk37,626 after Salomon Brothers issued a buy recommendation.

Written and edited by William Cochrane, Michael Morgan and John Pitt

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

Mar 6 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1585.38	1585.67	1585.53	1585.81	1586.10	1585.41	1586.63	1586.63
FT-SE Eurotrack 200	1668.24	1669.83	1667.57	1668.21	1668.33	1668.50	1669.92	1669.60

	Mar 5	Mar 4	Mar 1	Feb 29	Feb 28
FT-SE Eurotrack 100	1588.41	1587.02	1590.91	1575.00	1574.85
FT-SE Eurotrack 200	1670.45	1672.38	1674.80	1656.88	1658.93

Base value 1000 (26/10/90); High/day: 100 - 1587.15, 200 - 1670.69 Low/day: 100 - 1584.70 200 - 1667.30. † Partial.

ASIA PACIFIC

Nikkei gains, Taipei reacts to Chinese plan

Tokyo

Hopes of a solution for the budget impasse spread in late trading and the Nikkei average recovered earlier losses, *writes Emiko Terazono in Tokyo.*

The 225 index closed 57.31 higher at 20,241.18 after trading between 19,946.48 and 20,300.68. Initially, selling of high-technology stocks by overseas investors and arbitrage unwinding pushed the index below the 20,000 level. However, speculation that the ruling coalition and opposition parties might come to an agreement over the budget bill, which contains public spending for the liquidation of the ailing housing loan companies, helped share prices later.

Volume totalled 400m shares against 371.1m. Technical trading linked to the futures market dominated activity. The Topix index of all first section stocks fell 2.18 to 1,551.90 and the Nikkei 300 0.30 to 289.34. Declines led advances by 597 to 449 with 165 unchanged.

In London, the ISE/Nikkei 50 index rose 0.38 to 1361.91.

In spite of the hopes of a parliamentary compromise, bank stocks were lower. The latest agreement between the banking industry and the ruling coalition, that the banks will pay Y500bn in taxes by improving their profits by Y1,000bn through restructuring over the next seven years, fuelled public criticism. Mitsubishi Bank lost Y30 to Y2,170 and Dai-Ichi Kangyo Bank fell Y10 to Y1,960.

Semiconductor related stocks met heavy selling by foreign investors worried about the inventories at personal computer makers. Hitachi fell Y20 to Y449, Toshiba lost Y14 to Y787 and Fujitsu declined Y30 to Y1,030. Semiconductor manufacturing equipment makers were also lower with Tokyo Electron down Y60 to Y3,900.

Sony rose Y200 to Y6,300 on heavy buying by Nomura Securities in the afternoon. Other consumer electronics companies were also higher with Matsushita Electric Industrial up Y30 to Y1,680 and Pioneer Electronic adding Y10 to Y2,100.

In Osaka, the OSE average fell 55.78 to 21,517.05 in volume of 207.7m shares.

Roundup

TAIPEI reacted again to China's planned missile tests near the island, the weighted index closing 66.93, or 1.4 per cent lower at 4,725.81. An early sell-off by individuals drove the index to an intra-day low of 4,675.36, but the T$200bn stock market stabilisation fund bought actively to prevent a rout, brokers said.

HONG KONG was lower in response to a fall in index futures, while the government's budget speech was largely ignored.

The Hang Seng index fell 75.35 to 11,378.73, in turnover that dipped to HK$5.1bn.

Analysts commented that the market had been overbought in the previous two days on the surge in futures, while tensions between China and Taiwan had also helped to trigger selling. The budget was regarded as balanced and mildly positive, but contained no notable surprises.

Hong Kong Aircraft Engineering lost HK$1 to HK$21.50 after the company reported a 19.9 per cent fall in 1995 net profits.

SYDNEY weakened as the gold index fell back. The All Ordinaries index eased 6.9 to 2,301.1 in turnover of A$620m. The gold index lost 26.7 to 2,120.0. Publishing and Broadcasting rose 14 cents to A$5.60 after reporting a 53 per cent gain in first half profit and announcing that Mr Kerry Packer was to retire and be succeeded as managing director by his son James.

SINGAPORE was weak as investors focused on Malaysian stocks traded over the counter and the Straits Times Industrials index dipped 2.64 to 2,429.74. Keppel Bank, which rose 4 cents to S$4.76, disappointed investors after the market had closed with its announcement that 1995 net profit had risen by 18.6 per cent, compared with market expectations of 24 per cent.

KUALA LUMPUR saw further demand for blue chips and speculative issues which drove the market to a third consecutive 16-month high close, and the composite index advanced 11.75 to 1,136.14. Against the trend, Sime Darby fell 40 cents to M$6.60 on news that its Hong Kong subsidiary had posted a 64 per cent fall in six month net profit.

SHANGHAI's local currency A index tumbled 4.9 per cent to 577.662 and SHENZHEN's A shares lost 3.7 per cent to 115.63 as new share offers and listings depressed the markets and the Taiwan Strait tensions soured the mood. Shanghai's hard currency B index picked up 0.230 to 52.371 and its Shenzhen counterpart added 0.20 to 51.91.

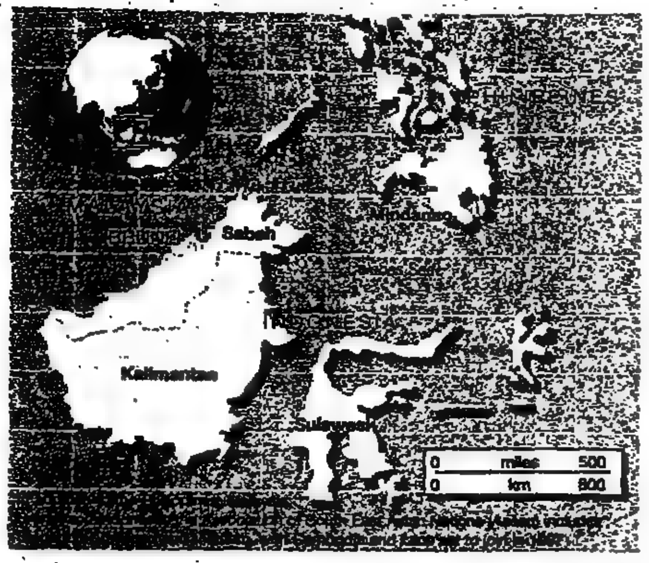
هكذا من الأصل

NEWS: ASIA-PACIFIC

Mindanao peace a test for Ramos

Edward Luce on the importance of a troubled and backward province

East Asean Growth Area



The impoverished island of Mindanao at the southern tip of the Philippines is considered something of an embarrassment by the Philippine government. With an annual per capita income about half the $1,000 national average and an undefeated 25-year Moslem separatist insurgency, Mindanao does not fit in with the Philippines' investor-friendly image.

President Fidel Ramos, who has attached high priority to concluding a political settlement with the Moro National Liberation Front, representing most of the region's 5m Moslems, this week gave his backing to a 67bn peso ($2.6bn) infrastructure and investment programme for Mindanao to win over the island's disaffected population.

Under the principle of "no lasting peace without development", Mr Ramos last week held the first cabinet meeting in Mindanao, devoted it to local issues and pledged to repeat the exercise. Presidential aides say it was no coincidence the government stepped up economic aid to the divided province just as peace talks appeared deadlocked.

"This president has visited Mindanao on more occasions since coming to office than all his predecessors put together," said Mr Hector Villanueva, the president's spokesman. "This is the best indication of how much importance he gives to the region." Some, indeed, have accused Mr Ramos of paying too much attention to the recalcitrant province. Last year he was forced to withdraw a proposal that the Islamic crescent be added to the Philippine flag, in the face of vehement opposition from the Roman Catholic church.

But reaching a peace deal with the secular MNLF – which has not been joined at the negotiating table by the MILF and the Abu Sayyaf, its increasingly well armed Islamic rivals – is considered an essential prelude to larger foreign investment in Mindanao and the country as a whole now that the Communist insurgency, at its height in the early 1980s, has died down.

Covering a third of the national territory, Mindanao is also the closest part of the Philippines to the country's neighbours in the seven-member Association of South-east Asian Nations and is the Philippine part of a regional "growth triangle" – the East Asean Growth Area – set up 18 months ago. This "triangle" includes the sultanate of Brunei, the Malaysian state of Sabah, and Indonesia's Sulawesi and Kalimantan regions.

Officials, and, more bluntly, foreign investors, concede that successful peace talks are seen by Asean neighbours as an important test of whether the Philippines can be relied on as a stable economic partner.

"Higher foreign investment would obviously flow from a peace deal but we believe that the reverse is true as well: more investment increases the chance of an agreement and reduces support for the extremists opposed to the process," said Mr Paul Dominguez, adviser to the president on Mindanao. Mr Dominguez added that total investment in Mindanao, mainly in agribusinesses and mining, had more than doubled since 1992 to more than 4bn pesos.

Mr Nur Misuari, leader of the 30,000-strong MNLF, who returned from exile in the Middle East last year to lead the negotiations, this week said that the three-year-old MNLF ceasefire could lapse unless the government made concessions on two basic sticking points:

- The scope and powers of the proposed Moslem autonomous zone; and
- Whether to hold a plebiscite within the zone to approve it.

The MNLF opposes a plebiscite, while Manila points out that about 65 per cent of the island's population are Christian and should be consulted.

The two sides, however, say that all other points of dispute on Moslem devolution have been resolved. These include incorporation of the rebel forces into the Philippine armed forces, revenue-sharing between Manila and the autonomous zone, and division of authority between the two bodies. A final agreement is therefore tantalisingly close.

"We don't think that Mindanao will be a safe bet until there is a lasting political deal," said an executive for a foreign mining company looking for gold in Mindanao. "Until then the political risk factor will be too high."

As if to jolt the negotiating parties into breaking the deadlock, the extremist Abu Sayyaf group – which the government says receives arms from militants in Pakistan – exploded bombs last weekend outside two Christian churches in Zamboanga, Mindanao.

Support for Abu Sayyaf is estimated to be low but on the rise. Mr Ramos, who has stationed more than half the total strength of the armed forces in Mindanao, calculates that higher government investment in the region's infrastructure and farming would undermine support for the extremists.

Seoul takes tough line with foreign media

By John Burton in Seoul

South Korea, which has had one of the freest media in Asia since the downfall of the military dictatorship in the late 1980s, has suddenly adopted a pugnacious attitude toward the press that is reminiscent of Singapore.

Government ministers and the son of President Kim Young-sam recently threatened libel suits against the Wall Street Journal and Los Angeles Times after they published articles about alleged bribery. This was followed by last month's expulsion of a foreign correspondent, the first since the end of the military dictatorship.

Mr Bruce Cheesman of the Australian Financial Review had angered the administration by writing critical stories and an unflattering biography of the president.

In a rare press conference conducted last week with Mr John Major, the UK prime minister, Mr Kim quickly cut off the session after only a couple of questions. "Is there press freedom in Korea?" a perplexed Mr Major afterwards asked a local British resident. "I've just come from the most curious press conference in which only two questions were allowed and they appeared fixed."

Less than a year ago, Seoul was host to the annual conference of the International Press Institute, during which Korea proclaimed its commitment to the free flow of information. In addition, the president has claimed credit for introducing political reforms, while "eradicating Korea's anti-democratic legacy" that included a crackdown on domestic press freedom.

But the National Congress for New Politics, the main opposition party, now accuses the government of trying to intimidate the media by conducting tax audits of newspaper companies before a general election next month.

The information ministry denies it is trying to intimidate. "Critical stories are one thing, libellous ones another," said Mr Sohn Woo-hyun of the information ministry.

Foreign news organisations have other complaints. The Kim administration is continuing the policy of the former military government of preventing foreign media groups from gaining full access to the Korean market. While foreigners may invest in most business sectors, the government plans to keep a ban on foreign ownership of domestic publications, broadcast organisations and news services. Foreign newspapers cannot be published in Korea.

Although foreign satellite broadcasts have been available since 1986, the government is trying to wean viewers from the few services available, which include Mr Rupert Murdoch's Star TV and Japan's NHK. A multi-channel all-Korean cable TV system was introduced last year and Korean satellite broadcasts will begin this year.

Foreign operators have been denied access to the cable system since foreign programming is limited to 30 per cent on a single channel. This has been a particular obstacle for Cable News Network, the US news channel, which is otherwise almost unavailable in Korea.

Allowing CNN to broadcast would "cause serious cultural problems. TV viewers will be made to understand international issues through an American point of view", an information ministry official explained. This view is not shared by the finance ministry, which says the decision hampers Korean financial markets by denying them access to information on other markets.

Irian Jaya tribesmen halt mine rioting

By Manuela Saragosa in Jakarta

Tribes living around the Grasberg mine in Irian Jaya, one of the world's biggest copper and gold producers, ended a spate of rioting late yesterday but the Indonesian subsidiary of Freeport-McMoRan Copper & Gold, which controls the mine, said operations remained temporarily closed.

A Freeport official in Jakarta said the copper and gold mills and mines "are in the process of starting back up" with equipment being checked. Shipments of copper concentrate were still being loaded at the local port. "We expect to start up very shortly," the spokesman said.

Riots have rocked Timika and Tembagapura, the mining towns close to Grasberg, since Sunday. Discontent among the local population has focused on a perceived lack of benefits from Freeport's mine to the local community, its social impact and environmental concerns.

Irianese tribes smashed windows, attacked a market place and damaged equipment at a Freeport environmental laboratory. Indonesian authorities sent in extra troops on Monday and the local airport remains closed to anything but military traffic. The riots peaked on Tuesday, when thousands took to the streets, attacking Freeport offices and the airport.

The official Antara news agency reported that security forces had arrested seven locals in connection with the riots and three people had been seriously injured. Yesterday morning's disturbances appeared to be directed as much at migrant workers from other parts of the Indonesia as at Freeport's operations.

Irian Jaya has about 1.7m of Indonesia's 200m population, and the government has been operating a controversial transmigration scheme around the mines, encouraging people from elsewhere in the archipelago to settle there.

Beijing finds an old ally in Moscow

By John Thornhill in Moscow

Several Sukhoi Su-27 jets, recently purchased from Russia, were among the scores of Chinese warplanes which yesterday screamed over the Taiwan Straits.

The sight was clearly intended to intimidate the "rebel" island. But it also served as a graphic illustration of the fast improving political and trade ties between China and Russia, once the antagonistic titans of the communist world.

In contrast to most western countries, Russia has adopted a markedly sympathetic stance over Beijing's sabre-rattling towards Taiwan. "Our position remains constant – that Taiwan is an integral part of China and that the current situation is an internal matter for the Chinese people," a Russian Foreign Ministry official said this week.

Despite the heightened tension, President Boris Yeltsin still intends to visit China next month.

Some Russian foreign policy officials even appear quietly delighted at the prospect of a permanent rift emerging between China and the west over Taiwan. Disillusioned with the results of its flirtation with the west since the collapse of the Soviet Union, Russia has been reverting to a more nationalist anti-American mood, symbolised by the appointment in January of the hardline Mr Yevgeny Primakov as foreign minister.

In recent months, Russian officials have floated the idea of a closer Russian-Chinese alliance aimed at moderating American influence in the world and countering the eastward expansion of Nato.

Such sentiments were yesterday summarised by Mr Pavel Felgengauer, a military commentator, in the Segodnya newspaper. "Even if the ambitious plan to create a new continental strategic partnership in Asia is for various reasons not completely fulfilled, Russia will in any event be able to earn several billion dollars [from the sale of arms and nuclear technology] and at the same time send a clear signal to the west – that Moscow is not as isolated and weak as it seems."

This revision of Russian attitudes towards China may continue even if Mr Yeltsin loses office in June's presidential election. There are few signs that Russia's Communist party wants to revert to the frosty relations – and sporadic border conflicts – which characterised relations since the times of Mao and Stalin.

Mr Gennady Zyuganov, the Communist party leader who tops most opinion polls, has spoken of emulating the "Chinese model" and has frequently praised Beijing for introducing economic reform while maintaining communist political orthodoxy.

But another strand of Russian thinking remains hostile towards China. Nationalist propagandists still fear the "yellow hordes" will pour across the border to grab Siberia's vast natural resources.

Despite Moscow's advances, China has remained cool about developing closer political relations – although it appears keen to promote trade. China emerged as Russia's seventh biggest trading partner last year buying $1.6bn (£1bn) of steel, fertilisers and arms.

Taiwanese President Lee Teng-hui, campaigning for a new term in office, yesterday issued a veiled promise to repulse any direct attack on the island by China, Reuter reports from Taipei. "The president to be elected should love and take care of the citizens, just like Matsu," Mr Lee said, comparing himself to the Chinese goddess who died trying to save others. "Not just by saying some nice words." His pledge was backed by a senior marine official who said "all ships" would be mobilised to protect the island's territorial waters against an intrusion.

MPs to study stock trading at New York exchange

Members of the Treasury committee of the House of Commons plan to visit New York for a first-hand look at an order-driven stock market, George Graham writes. Their visit will be part of an effort to unravel the tangled debate over the future of the London Stock Exchange.

The committee has been holding hearings on the introduction of order-driven trading, but MPs have expressed frustration at the difficulty of separating this issue from the personality clashes that led to the sudden dismissal in January of Mr Michael Lawrence, chief executive of the London exchange.

The New York exchange operates rather differently from the electronic order book proposed by the London exchange. All orders for a particular stock are directed to the specialist trader for that stock; orders interact as much as possible, but the specialist also trades on its own account to deal with differences between supply and demand. Large blocks of shares, however, are traded off the floor of the exchange in "upstairs" trading.

The Commons committee is expected shortly to announce a new set of hearings, which will include a second grilling for Mr John Kemp-Welch, the exchange chairman, much of whose first round of testimony was questioned by Mr Lawrence.

MPs also want to question the Treasury and Mr Donald Brydon of Barclays de Zoete Wedd, the marketmaker. Mr Lawrence said Mr Brydon was the leader in the "coup" that brought about his dismissal.

By August, a new electronic system will make it technically possible for the exchange to introduce order-driven trading, in which buy and sell orders are entered on a central electronic book and automatically executed when they match.

But the proposed changes have drawn fire from marketmakers such as BZW. Marketmakers have built a substantial market share in the current quote-driven system, where marketmakers quote prices at which they are prepared to buy and sell on screen, but actual bargains are struck over the telephone. Many institutional investors have also expressed reservations about the introduction of order-driven trading.

Sir Thomas Arnold, the committee's chairman, said MPs wanted to "strip out any element of personality and see if there are any structural problems here" which parliament ought to address.

Irish Americans are urged to pressure Adams

By Jurek Martin in Washington

The Clinton administration is confident that Irish Americans will this week deliver "a strong message" to Mr Gerry Adams, president of Sinn Féin, that he must do all he can to restore the Irish Republican Army's ceasefire. Sinn Féin is the political wing of the IRA, which operated a ceasefire from late 1994 to last month.

A senior White House official said that, although Mr Adams had not been invited to tomorrow's St Patrick's Day party hosted by President Clinton, similar sentiments would be conveyed to him in any informal contacts he has with the US government.

"We view Adams as someone who was helpful in the ceasefire over the last two years – and still can be," the official said. She added that the administration had been in close touch with prominent Irish-Americans to ensure that the "message" about restoring the ceasefire was delivered without equivocation.

The next 48 hours in Washington will witness a series of formal events, all allowing for informal contacts. Mr Clinton discussed Northern Ireland with Mr John Major, the British prime minister, at yesterday's "summit of the peacemakers" held in Egypt. But he will not return from the Middle East until late tonight and will miss today's traditional St Patrick's Day lunch on Capitol Hill and the evening's Irish America Fund dinner, at which Mrs Hillary Clinton will be present. He will, however, meet Mr John Bruton, prime minister of the Republic of Ireland, in the White House tomorrow. The meeting will come before the formal reception which last year saw the first meeting between the president and Mr Adams.

Among senior Northern Ireland politicians accepting invitations are Mr John Hume, leader of the constitutional nationalist Social Democratic and Labour party; Mr David Trimble, leader of the Ulster Unionist Party; and Mr John Alderdice, leader of the non-sectarian Alliance party. The Ulster Unionists are the largest pro-British party in Northern Ireland.

The senior official said US policy was focused on ensuring the success of all-party talks scheduled for June 10 as "the best way to bring everyone on board" the peace process. The US had no view as to "which type of election" should precede the proposed constitutional assembly in Northern Ireland and had no present plans for a separate initiative.

She confirmed it was Mr Adams who had volunteered not to engage in fundraising in the course of his US trip, a concession which had made it easier to issue him a US visa two weeks ago.

This week's threat by Protestant paramilitaries in Northern Ireland to respond to renewed IRA bombing in England contrasted with "the restraint they have showed to date," she said. "Responding to violence with violence is not right."

European Union States will be tempted to hedge bets on integration

Flexibility is top conference issue

By Lionel Barber in Brussels

The EU's intergovernmental conference, which will open in a refurbished Fiat factory in Turin on March 29, is supposed to shape Europe's future for the 21st century.

Euro-fatigue points to a more prosaic outcome. Monetary union is the biggest game in town. Until it is known whether Emu is going ahead on schedule in 1999, most countries will be tempted to hedge bets on the pace and scope of future integration.

Yet most countries agree the EU cannot stick to the status quo, if it is serious about enlargement to include central and east European countries around the turn of the century. A modicum of reform to institutions and decision-making is inevitable; maybe more.

Alliances among EU countries at intergovernmental conferences – rolling negotiations among ministers leading to heads of government summits – are tactical, selective and often temporary.

Overlapping interests can also make for strange bedfellows. Britain and France agree on the need for national vetos, particularly in foreign policy. Britain and Greece are attached to the national veto.

Yet the strategic partnership in Europe remains the Franco-German alliance.

The big question is whether countries are willing to embrace a more flexible Union. This would allow some member states to move ahead of the rest, to integrate more closely in certain areas, without being held back by national vetos.

France, Germany, the Benelux countries and the European Commission all support the principle of variable geometry but still have to agree on detail. Britain nominally supports the idea but worries that it could lead to exclusive clubs, or weaken common disciplines in areas such as the single market.

Germany, though still the driving force behind closer integration, has scaled back some of its earlier ambitions – largely in deference to a Gaullist France.

Ideas such as constructive abstention, where no country would be expected to provide troops or police for joint EU action, are aimed at circumventing national vetos. More qualified majority voting, tempered by safeguard clauses for defending legitimate national interest, is an alternative route.

The most promising area for progress at the IGC is probably the so-called third pillar, where governments pursue loose co-operation to deal with immigrations, asylum and justice matters.

Most countries favour streamlined decision-making to strengthen the EU's internal security. Britain and France have reservations, however, particularly in supporting open borders and increased police co-operation.

The prospects for a genuine common foreign and security policy are less promising. Most countries seem ready to support the idea of a Mr or Mrs X as the public face of the Union, backed by a new analysis and planning unit in Brussels.

At the same time, most agree that member states have moved backwards on a common foreign policy since Maastricht five years ago.

Warning from Bank of England chief

Mr Eddie George, governor of the Bank of England, yesterday warned against UK participation in European monetary union unless the country was confident that sufficient economic convergence had taken place to make the project a success. In comments whose tone surprised some of his audience at a Royal Institute of International Affairs conference in London, Mr George said: "If we had serious doubts about that at the appropriate time . . . I am not at all convinced that it is a club we should wish to join."

A similar tone was struck by Mr Adair Turner, director general of the Confederation of British Industry. While Emu could be economically beneficial, he said, there were some "very significant dangers which, unless mitigated, could turn the impact of Emu from positive to negative".

A more positive tone was struck by Mr Jean-Claude Trichet, governor of the Bank of France, and Mr Klaus Regling, director-general at the German ministry of finance. Mr Regling and Mr George clashed over whether a consensus existed that there should be an exchange rate system linking non-participating EU states to a planned single European currency, the euro. Mr Regling said a consensus had emerged at the Madrid summit of EU heads of government, but Mr George disputed this.

Where nations stand on the issues

Areas of controversy	UK	France	Germany	Benelux	Nordic	Mediterranean	Austria, Ireland, Greece
EU defence dimension	✗	✔	✔	✔	Wary	Broadly in favour	Ireland & Austria doubtful
[illegible]	Qualified support	✔	✔	✔	Qualified support	Qualified support	Qualified support
[illegible]	✗ (Against extension)	✔	✔	✔	✔	✔	✔
[illegible]	✗	✗	✔	✔	✔	Italy in favour	Broadly in favour
Common foreign policy	✗ (Nation state comes first)	✗ (Nation state comes first)	✔	In favour (with role for commission)	✔	✔	Greece keen on national veto
Employment [illegible] standards	✗	Broadly in favour	Doubtful	✔	✔	Italy and Spain hesitant	✔
	✗ Against	✔ In favour			Sweden, Denmark, Finland	Spain, Portugal, Italy	

Tough law fails to curb illegal guns

By Jimmy Burns, James Harding and Clay Harris

The killings at Dunblane are likely to prompt a review of UK laws on firearms ownership, but police and gun experts warned against placing too much faith in further restrictions.

The Home Office said last night it did not know whether Thomas Hamilton, identified by police as the gunman at Dunblane primary school, was licensed to hold firearms. Police said he carried four weapons – all handguns.

Police firearms analysts estimate there could be more than 250,000 illegal guns in the UK, while members of the Firearms Consultative Committee, the government's official watchdog, considered one recent report which put the figure as high as 1m.

Senior police officers warned that UK laws, while imposing much tougher restrictions on the sale of guns than in the US, had not prevented their increasingly wide use.

Under the 1968 Firearms Act, an individual can own a weapon only if he or she holds either a firearms certificate or shotgun certificate approved by the police. The police will grant the licence only if the person can show that he has a valid reason for wanting the weapon, is fit to use it and "presents no danger of disturbing the peace". A Home Office official said: "Say you are a guns enthusiast or a gun collector. You have to satisfy the local chief police officer that it is safe to let you have a gun."

The most recent Home Office figures show that in 1994 140,200 people in England and Wales had been granted certificates to own firearms – including handguns and rifles – and a further 670,000 people had shotgun certificates. In Scotland, there were 31,952 firearm certificates and 70,424 shotguns.

The police keep records of all licensed firearms, including a register of the gun's serial number, type and any specific conditions associated with the award of a licence.

The last significant tightening followed the Hungerford massacre in 1987, in which 16 people were shot dead by a gunman in the streets of the town 100km west of London. The changes included a ban on high-powered self-loading rifles and "burst-fire" weapons and repeating short-barrelled smooth-bore guns.

"There is little doubt that if you want to purchase a firearm you can purchase one whether or not you are licensed," said Detective Chief Inspector Michael Fry of the Flying Squad, in charge of combating violent crime.

Additional research by Pedro Das Gupta

Car named as environmental villain

By Leyla Boulton, Environment Correspondent

The car emerged as the chief villain while industry was a hero in the picture of Britain's environment painted by official indicators. Mr John Gummer, environment secretary, said the indicators, measuring everything from fuel consumption to fish stocks, were aimed at nudging Britain towards more environmentally sustainable development.

The figures, published for the first time, show that fuel consumption by cars has nearly doubled since 1970, growing by about the same amount as traffic itself. The government concluded that this showed "little change in efficiency of fuel use, in marked contrast to the industrial and commercial sectors". Even Ms Hilary Hillier, the Department of the Environment's chief statistician, expressed surprise at the findings, saying that she had been impressed by motor industry advertisements trumpeting fuel efficiency improvements.

Over the same period, industry's energy consumption fell 40 per cent in spite of a 40 per cent increase in real output.

Over the economy as a whole, oil price rises, saturation in the ownership of domestic appliances and a shift away from energy-intensive industries meant that energy consumption barely increased in spite of real economic growth of 60 per cent.

Mr Gummer said that he wanted the indicators to stimulate debate but the new figures come as an acute embarrassment for a government which only recently cut its road-building programme. Last month the Royal Commission on Environmental Pollution said it had not received a government response to a report issued last summer calling for a reduction in car use.

That report sparked the anger of the motor industry, which yesterday admitted that fuel efficiency had been reduced in part by safety requirements which called for heavier cars, and by environmental features such as catalytic converters.

The indicators also showed that increased traffic had meant that cars had been a worsening source of urban pollution in spite of cleaner fuels and vehicle design. Nitrogen dioxide levels had been at a historical peak in the past few years while particulate matter and ozone concentrations had increased in the 1980s.

But Mr Gummer rejected calls for heavier taxes on cars and increased subsidies for public transport. The indicators also show that the cost of rail and bus transport, which were hit by a cut in public subsidies, have increased faster than real incomes while motoring costs have fallen. Mr Gummer also said that there was a need to "increase our emphasis on public transport".

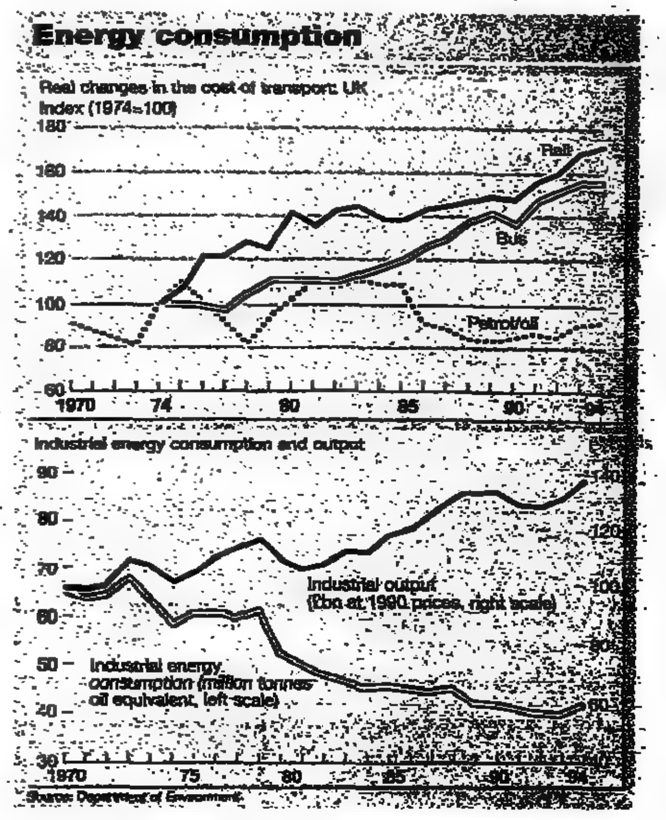
The indicators showed that in spite of a government programme to enhance energy efficiency in the home, energy consumption per household has changed little since 1970.

Mr Gummer, who has often been isolated in defending environmentalist policies in the cabinet, said that the report showed a need to put across a more effective message on energy efficiency.

The opposition Labour party accused the government of "hypocrisy" over the environment and said that Labour would put the indicators to good use if it came to power.

Ms Hillier expressed the hope, however, that the indicators would help individuals realise that they too had a responsibility towards the environment and might change their behaviour. She suggested that target indicators could be set, against which progress might be measured in future. The Central Statistical Office is working on plans to incorporate environmental performance into measures such as gross national product.

Energy consumption



Source: Department of Environment

UK NEWS DIGEST

Customs faces prosecution

The Customs and Excise Department faces threats of legal action from the three defendants in the Matrix Churchill trial following the Scott report about sales of arms to Iraq. Mr Peter Allen and Mr Paul Henderson, two former directors of the Matrix Churchill machine tools company, plan to follow the lead of their former colleague Mr Trevor Abraham, whose lawyer wrote to Customs on Monday pressing for compensation.

A lawyer for Mr Allen said that if he did not receive satisfactory proposals from Customs for compensation, he would consider the "institution of proceedings for malicious prosecution and/or abuse of office". It is thought that lawyers for Mr Henderson will press for compensation with the threat of legal action related to their client's alleged wrongful arrest and unlawful confinement. Lawyers for Mr Abrahams said they had written to Customs claiming compensation for the professional loss and personal hardship suffered by their client as a result of the Matrix Churchill trial.

The three former directors were prosecuted by Customs in October 1992 for exporting military equipment in breach of export regulations. Their trial collapsed soon after it opened when it was disclosed that the British government knew of the exports. The inquiry into arms for Iraq conducted by Sir Richard Scott after the trial had an examination of the prosecution as one of its main terms of reference. In his report, Sir Richard blamed Customs investigators and their lawyers for an "inadequate investigation" before the trial, and concluded that the trial should not have taken place. A Customs spokesman said yesterday that "knowing the information we know now, we would not have gone ahead with the prosecution." He added that the department did not believe it had acted maliciously.

Jimmy Burns, London

Redundancies at RAF

The Royal Air Force handed compulsory redundancy notices to 1,000 personnel while the Army mounted a hunt for new recruits. The RAF redundancies represented its biggest single cut since the second world war, and were the final stage of an intensive restructuring programme. They were among more than 5,500 RAF staff from a 3-star air marshal to the lowest ranks to lose their jobs in the final adjustment after the end of the cold war.

Meanwhile Mr Nicholas Soames, the armed forces minister, launched a Saatchi and Saatchi advertising campaign to recruit 15,000 personnel to the army, which is now under strength. The government's Options for Change programme cut the army's strength by a quarter, but coincided with a steep decline in recruitment. The army is now 3,000 personnel short of its 115,000 target, and Mr Soames said it needed to increase recruitment. He believes a general lack of fitness among Britain's youth is one of the reasons for the fall in recruitment along with a demographic drop in the number of young people entering the labour market.

Despite the latest round of redundancies, the RAF is seeking to recruit 3,200 people this year and the requirement is set to rise to 5,000 recruits a year by 2000. Senior RAF officers explained that recruits were needed to create a smaller but well balanced air force.

George Parker, Westminster

Unions warned on membership

Trade unions have been warned that they must do more to recruit part-time workers if they are to halt the steady decline in union membership. A report for the Trades Union Congress says unions should shift resources away from servicing a shrinking pool of members towards a co-ordinated recruitment drive. It also urges them to cut subscription rates by up to 75 per cent, encourage inter-union co-operation to avoid wasteful rivalry and link with the National Union of Students to target the growing number of young part-timers into mainstream union membership. Mr John Monks, TUC general secretary, said: "Unions cannot afford to sit back and hope that the days of the steady, full-time job will return. We have to get to grips with the new labour market."

Andrew Bolger, Employment Correspondent

Fayed increases offer

Liberty Publishing, the newly created media venture of Mr Mohamed Fayed, is about to submit an increased offer for The Observer, Britain's oldest Sunday newspaper. Mr Fayed owns Harrods, the London department store. Last week the Scott Trust, the body that governs Guardian Media Group, rejected a £15m offer from Liberty. GMG owns The Guardian daily newspaper and The Observer. Mr Stewart Steven, former editor of the Mail on Sunday and now chairman of Liberty, will submit a £20m bid for The Observer in the next few days.

Raymond Snoddy, Consumer Industries Staff

Companies comply on pay

The proportion of big UK publicly quoted companies with executive directors sitting on their boardroom remuneration committees has fallen from just under half to a quarter in the past 12 months, says a survey of 200 companies by the Monks Partnership, the pay specialists. It shows that a big majority of companies has moved to comply with recommendations on remuneration committees made in the Greenbury report on executive pay. The survey also found that a fifth of British companies now had one or more non-executive directors based outside the UK.

Richard Donkin, Employment Staff

Big compensation award

A former steelworker has been awarded £512,000 ($783,300) compensation after receiving extensive burns in an accident at Scunthorpe steelworks in northern England seven years ago. The GMB general union said it believed the award was the highest recorded for an industrial accident. Mr Peter Black, 46, suffered burns to his head, body and arms when a crucible of molten metal and slag splashed over him. The award was against British Steel and Appleby Slag Reduction, for which Mr Black was a machine driver.

Andrew Bolger

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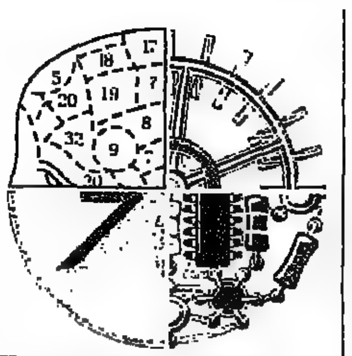
TECHNOLOGY

Worth Watching - Vanessa Houlder



Free agents target Web users

The development of "intelligent agents" is allowing advertisers on the World World Web to target their message at specific groups of individuals.

Agents, Inc, a Massachusetts-based company, is offering Web users a free agent – software acting over a network without direct supervision – that can be instructed about the user's musical tastes, favourite films, age, gender, post code and so on.

Once the advertiser has decided on the profile of the target consumer, the agents ensure that the message is delivered to the appropriate individuals.

Agents, inc: US, tel 617 2345400; 617 2345414.

Understanding the circadian clock

The "circadian clock" is the mechanism that ensures that the body's internal rhythms, such as sleeping and waking, are synchronised with day and night. Until recently, there has been little understanding of how the circadian clock functions, although two genes – called period and timeless – involved in the working of the clock have been identified in drosophila (fruit flies).

A possible mechanism has been put forward in today's Nature by scientists at the Howard Hughes Medical Institute at Brandeis University in Massachusetts and The Rockefeller University in New York.

Biochemical studies on drosophila showed that their circadian clock was governed by a complex of proteins encoded by the two "clock genes". The fly's timeless protein, Tim, appears to degrade in response to light, triggering all the other effects controlled by light and dark.

Howard Hughes Medical Institute: US, tel 617 7363160; fax 617 7363164.

Cutting the cost of mobile calls

Much of the expense of making a call from an office to a mobile telephone is the charge levied by BT or Mercury to route the call through their networks to the cellular networks.

The cost of peak time calls to mobile telephones could be nearly halved by using a cellular transceiver to bypass the BT or Mercury leg of an out-going call, according to Wavetech, a Hertfordshire-based supplier.

Its Phonecell SX transceiver, which costs £1,500, cuts peak time call costs to 17.5p per minute.

Wavetech: UK, tel (0)1707 323823; fax (0)1707 323705.

Bearing towards glass

Glass is a more suitable material than metal for making some types of precision bearings, according to German researchers.

The Fraunhofer Institute for Applied Optics and Precision Engineering in Jena has built scanning equipment that uses high-quality, air-lubricated bearings. Using glass instead of metal avoids the risk that components will deform. The glass is also suitable for making bearings in precision measuring and test equipment.

Fraunhofer Institute for Applied Optics and Precision Engineering: Germany, tel 3641582318; fax 3641582604.

Cameras aid tube bending

Computer-controlled machines for bending tubes and pipes have been in use for more than 20 years. But automating the measurement and inspection processes has proved difficult.

Addison Tube Forming, a Preston-based company, has worked with the University of Manchester to develop a system that uses video cameras to take pictures of the tube from several directions, from which it can construct a 3D image of the component. The system is calibrated against an object that has a large number of accurately measured features.

Addison Tube Forming: UK, tel (0)1772 34511; fax (0)1772 323227.

Anna Kochan looks at the role of robotics in electronics production and a sewing application

Clean machine

ROBOTICS AT WORK

Robots are taking on ever more varied and exotic roles in the electronics industry, driving human workers out of domains where their presence would be unwelcome or impossible. The cleanrooms used by semiconductor manufacturers are getting cleaner, and a human could never satisfy the demanding standards of cleanliness which the industry expects.

Also, with the increasing use of vacuum working by the chip makers, robots are taking on yet more traditionally human duties.

In disc drive assembly, robotics is widespread because the intricacy of the work, and rising quality standards, pose extreme problems for manual workers. In printed circuit board (PCB) manufacture, meanwhile, quality and cost issues are driving companies to automate, particularly those competing with south-east Asian, low-wage countries.

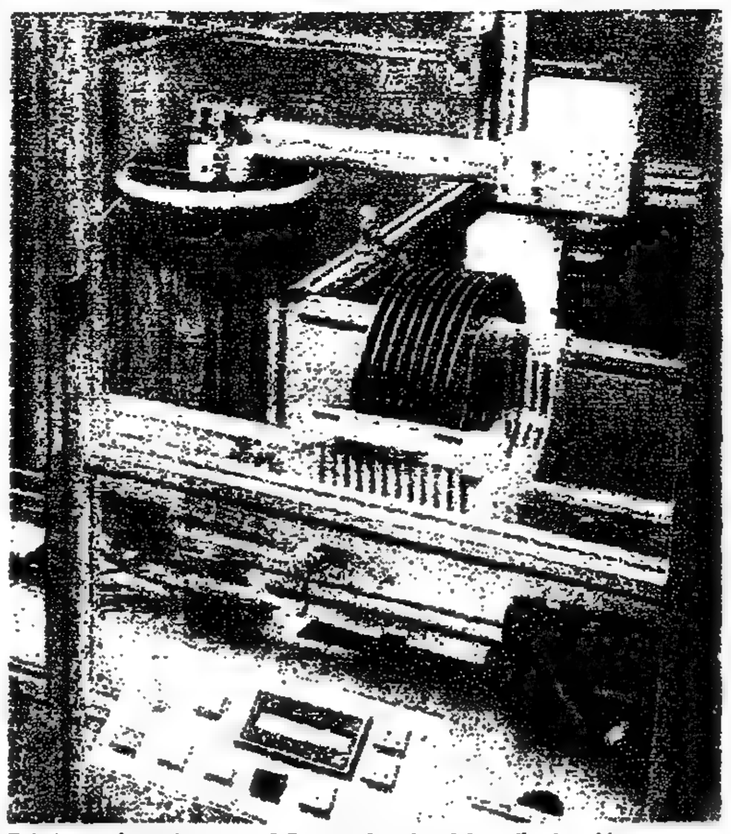
Not all the tasks performed by robots in the electronics industry are difficult. In semiconductor manufacture, the robot can carry out undemanding tasks – such as loading silicon wafers to and from the various machines that process them – in an environment where human presence is undesirable.

"A semiconductor plant today has to be 1,000 times cleaner than an operating theatre in a hospital. You can't clean up a person to that extent. Even a slight brush of an eyebrow would create such a cloud of dust that production lines would have to be closed down. As a result, every semiconductor manufacturer uses robots," says Rick Palmer of French-based robot manufacturer Staubli Unimation.

But if the tasks are repetitive, the robots themselves are often very specialised and costly because they are increasingly required to operate in a vacuum.

In the disc drive sector, the leading factor in the automation decision is cost, says Joan Pinder, executive director of the California-based International Disc Drive Equipment and Materials Association.

"The most automated disc drive factory in operation today is in Japan where space is at a premium and labour is expensive," she says. It was built by Matsushita Kotobuki Electronics, the manufacturing arm of US disc drive producer Quantum, and produces about 50,000 disc drives a day using 400 people and 150 robots.



Robots test the performance of discs used to store information in a drive

On the other hand, Seagate, Quantum's main competitor, has manufacturing facilities in Singapore and Taiwan where low-cost labour is available. It produces about the same volume of drives with a workforce of 25,000, Pinder estimates. The factories use robotics only where absolutely essential.

Seagate gains one big advantage by favouring manpower. Disc drive technology is evolving very fast, and although robots are flexible enough to cope with new products, they do require appropriate modification and refitting, which can be costly, says Pinder.

The downside of using operators instead of robots is that quality may suffer. Disc drive assembly, explains Pinder, is an intricate operation, involving the precise location of one component on top of another, and the application of pressure.

Cleanliness is also crucial to many disc drive manufacturing operations and, because cleanroom standards are rising higher and higher, the need for robots is increasing, says Paul Binding of Staubli Unimation (UK). "Manufacturers used to be satisfied with a Class 100 cleanroom environment, then it was Class 10 and now it is Class 1 – which means 1 particle per metre cube."

This places extra demands on the robot because a conventional industrial robot deposits dust in the environment. To eliminate this, the Staubli Class 1 cleanroom robot is fitted with special seals around all its internal parts so that no dirt can escape from them, and an exhaust system is built into the robot base. In addition, as industrial paints release dust when set in movement, the cleanroom robot is coated with a special paint which provides a very hard surface that takes seven days to harden and dry.

Robots are expected to play an increasing role in disc drive manufacture, largely because of the miniaturisation of components, says Pinder. As heads and discs become smaller, manufacturers will be forced to introduce more robots because operators will not be able to assemble them without using a microscope – and that is far from practical, she believes.

Staubli currently claims to be the only robot manufacturer offering a Class 1 cleanroom robot but many others are entering the market, including Japanese companies Yaskawa Electric and Hirata Kiko.

In PCB manufacture, a robotic solution is the only way of automating the insertion of odd-shaped components, such as transformers, capacitors, pins, connectors, fuses, sensors and springs, that high-speed insertion machines dedicated to standard axial and radial components cannot handle. Although the task can be performed manually, it is operator-intensive and also susceptible to operator error because of the similar appearance of many components.

"We automate as much as we can to cut down on errors," says Grayson Dias, manager of engineering at Hitachi's plant in Hirwaun, South Wales, where colour television sets and computer display monitors are produced for the UK and European markets. "PCB production is currently at a 93 per cent level of automation and this includes six robots for mounting odd-form components on to boards."

However, he adds, automation levels are not quite as high in the South Wales plant as those in the company's Japanese plants because of the shorter production runs, which make automated solutions more costly and more difficult to justify.

"We benefit from seeing what our companies in Japan are doing, but then it is up to us to calculate what technologies we can afford and which will give us our required three-year payback."

Because of the operator-intensive nature of odd-form component insertion, many companies competing with south-east Asia are forced to automate it, says Joe Morris, director of PMJ automec (UK), a Finnish-owned company which delivers more than 100 robotic insertion cells to industry a year.

The PMJ automec cell, which sells at between £120,000 and £150,000, replaces three operators on each shift. It has enabled customers to cut costs, he says, and thereby maintain production in-house which would otherwise have been transferred to south-east Asia.

A case of pins and needles

Robotic sewing technology developed for automotive applications could soon be adopted by the clothing industry if a research programme funded by the German government proves successful.

The project, which has begun by focusing on stitching skirts, is being led by Moll, the Aachen-based specialist in sewing technology which has pioneered robotics for stitching upholstered car parts.

Sewing is traditionally labour-intensive, and whether a factory makes jeans or head rest covers, the scene on its shopfloor is much the same: large numbers of operators sit in front of sewing machines, manipulating pieces of material under a sewing needle, surrounded by piles of cut fabric and partly sewn product.

Little automation has been introduced into this environment because of the floppy, stretchy and clingy nature of the component parts.

In the Moll approach, a robot manipulates a sewing head in three-dimensional space around the fabric components which are held together in a specific configuration by a patented tooling system.

At the start of the cycle, an operator loads the component pieces making up one product to the robotic cell. These are then seized by the tooling system which automatically pre-assembles them on to a dummy whose shape is identical to that of the end product.

This dummy holds them in place during the sewing cycle and then collapses so that the stitched item can be removed.

Further enhancements to the system should enable rolls of textile to be cut and stitched automatically without any operator intervention.

"If we are successful, it will mean that textile components can be produced without direct labour and that sewing becomes an industry that is not wage cost-based but capital cost-based," says Barton.

"This will give manufacturers the freedom to locate sewing operations where they are needed and not to be forced to seek out low-wage economies."

A Serb holds a book on Tito as he passes buildings set alight by other Serbs giving up the Sarajevo suburb of Ilidzia Reuter

ZAGREB AND BELGRADE IMPROVE LINKS

By Laura Silber in Belgrade and Harriet Martin in Sarajevo

Croatia and the Serbian-led rump Yugoslavia yesterday agreed to restore telecommunications and transport links in an important step towards normalising relations broken since their 1991 war.

The deals were signed after talks in Zagreb between Mr Milan Milutinovic, foreign minister of Yugoslavia, and Mr Mate Granic, his Croatian counterpart. The two sides agreed to reopen the Zagreb-Belgrade highway and railway, the main overland commercial routes between central and south-eastern Europe before 1991.

The accords also provided for the restoration of aviation and full telecommunications links, the reopening of the Adriatic oil pipeline, and broader consular functions for the still modest delegations in each capital. Officials said each agreement would be implemented within the next month.

Diplomats say the Serbian-Croatian normalisation process would help to ensure a smooth handover of one remaining rebel Serb enclave to Zagreb government control via a UN transitional force that will arrive next month.

In another development, the US said yesterday it would make $100m available to arm and train a Moslem-Croat Federation army, despite fears the move could undermine efforts to disarm the former warring sides.

Mr James Pardew, a US special representative in the Balkans, yesterday dismissed European fears that the arms control process would be disrupted by the US "train and equip" project.

After meeting Nato ambassadors in Brussels, he told reporters: "We want to reduce weapons in Bosnia," but added that security could also be helped by improving "the quality of the Federation force". Details of the military funding will be released on Friday.

The US announcement came as the Bosnian prime minister, Mr Hasan Muratovic, last night criticised the Nato-led peace implementation force (Ifor) in Bosnia for doing nothing to prevent the widespread burning and looting of homes and factories in the last two of five Sarajevo suburbs which are being transferred from Serb to federation control.

One of the suburbs, Ilidza, was due to be handed over to the federation today. Although increased numbers of Ifor troops have been patrolling the streets, the Nato-led force has refused to detain young Serb men openly looting and setting buildings on fire.

Ministers support German proposal after Caribbean crash

EU backs airline safety call

By Caroline Southey in Brussels

Transport ministers yesterday backed a German call for an EU regime to improve airline safety standards, including the possibility of barring airlines from third countries entering EU airspace on safety grounds.

Mr Matthias Wissmann, the German transport minister, said ministers had responded positively to his call for a European safety certificate for airlines.

Mr Wissmann has advocated a blacklist which would "name those states whose aviation supervisory authorities, in the opinion of EU member states, do not adequately check and supervise the maintenance of international safety standards by the airlines registered with them".

The German campaign for EU-wide measures comes in the wake of an airline crash off the Dominican Republic early early last month in which 164 German tourists were killed.

The aircraft was operated by a small independent Turkish airline, Birgenair, which went into receivership earlier this week.

An investigation into the crash established that pilot error was responsible for the accident. The aircraft was under lease to the Dominican airline, Alas Nacionales.

Mr Neil Kinnock, EU Commissioner for transport, said a high-level working party of member state and commission officials would present proposals on the issue to the next council meeting.

"The terms of reference are very broad and will examine all aspects of aviation safety regulations," Mr Kinnock said.

He said ministers had recognised the need for a union-wide regime to control and monitor aviation standards, and suggested that the system of controls operated by port authorities could provide useful guidelines for airport authorities.

EU officials pointed out that EU co-ordination was essential if member states were to act uniformly against targetted countries or airlines.

Mr Kinnock said that, as well as tightening controls on third countries operating in EU airspace, complementary measures might involve providing EU experts to help improve shortcomings in third country aviation standards.

EU officials said Europe could look to the US Federal Aviation Administration, which maintains a blacklist but also helps countries to assess the quality of their airline supervision.

■ Mr Neil Kinnock, EU transport commissioner, said there had been a "satisfactory and significant change" among transport ministers towards an EU-wide mandate to negotiate an "open skies" air deal with the US.

There was broad agreement that ministers should discuss "sounding out the US" about a common EU approach at the next council meeting in June.

However, transport ministers remained divided on the issue yesterday, with the UK and France firmly opposed to ceding any negotiating powers to the union on traffic rights.

A majority of member states appeared in favour of the EU presenting a common front on non-traffic right issues, such as competition policy.

However, Mr Kinnock said he did not "take the view that traffic rights can be excluded" from any mandate.

Greeks face Olympic grilling

By Kerin Hope in Athens

Greece's transport minister, Mr Haris Kastanidis, faces a grilling in Brussels today over political interference in the day-to-day running of Olympic Airways, the struggling state carrier which is being restructured with European Union assistance.

Not only did the government appoint former prime minister Andreas Papandreou's personal pilot as the airline's general manager last November, it also chose a new board of directors dominated by members with close ties to hardliners in the governing Socialist party and Olympic's militant unions.

Some airline officials claim the new board's blocking of reforms proposed by Professor Rigas Doganis, the international aviation industry expert who took over as chairman and chief executive a year ago, is endangering Olympic's chances of survival. Said one senior official: "The board has rejected an alliance with Cyprus Airways and is blocking a product relaunch and frequent-flyer programme. These are crucial to meeting revenue targets for this year."

The issue of political meddling will be raised today when Mr Kastanidis meets Mr Neil Kinnock, the EU transport commissioner, as will concerns about an extra Dr 11bn ($45m) in state aid to Olympic last year which was not approved by Brussels. The Commission is to decide next month whether Olympic has made enough progress to qualify for the second tranche of a Dr54bn capital injection agreed under a three-year rescue plan launched last year.

Airline executives say they did not ask for the extra funds, which were proposed by Socialist MPs to boost pension packages offered to Olympic employees willing to take early retirement. About 1,700 out of 10,600 jobs are being cut in the restructuring.

Brussels will raise the issues of political meddling by Athens and extra state aid

The board's hostility towards Prof Doganis, a Greek who teaches at Cranfield management school in the UK, is another indication that the government has failed to comply with the Commission's demand for independent management of the airline.

Greece's tradition of political interference in the management of state corporations by trade union officials and cabinet ministers helped bring Olympic to the brink of bankruptcy. Accumulated debts of Dr491bn were written off last year under the restructuring programme.

Under Prof Doganis, Olympic posted profits of Dr6bn in 1995 – the first year since the 1970s that it has managed to stay out of the red. This was despite an estimated 10 per cent fall in tourism to Greece, the carrier's main source of income.

A report by Alan Stratford and Associates, consultants hired by the Commission to assess the first year of restructuring, says the programme "has already had a significant positive impact".

The carrier boosted traffic by more than 20 per cent on long-haul routes to the US, South Africa and Australia, which usually cater mainly to ethnic Greeks. It plans to add extra flights this year to meet increased demand from international travellers.

Revenues from domestic flights, where Olympic suffers financially from having to keep Aegean island routes open year-round, improved by 18 per cent on a 7 per cent increase in fares.

Airline managers also met another Commission requirement by accepting a strategic plan aimed at making Olympic the dominant regional carrier by the end of the century, through strategic alliances with other eastern Mediterranean airlines, buying new medium-sized aircraft and developing Thessaloniki airport in northern Greece as a hub for the Balkans.

Belgian power contracts doubt

By Neil Buckley in Brussels

The European Commission is planning to investigate contracts between Electrabel, the privately owned Belgian electricity company, and the country's municipalities, which it believes may contravene European competition law.

Mr Karel Van Miert, the competition commissioner, has told a Flemish minister that aspects of recently renegotiated contracts between Electrabel, which supplies 92 per cent of Belgian electricity, and the municipalities "could raise serious doubts about their compatibility with the competition rules".

Mr Van Miert says he is concerned that "intercommunales" – companies set up by groups of municipalities to handle electricity distribution, often in partnership with Electrabel – are being offered stakes in Electrabel if they prolong their contracts by 30 years.

The commissioner said the new contracts, including a clause with an "almost exclusive" obligation to Electrabel, were an "attempt to block any step forward in energy liberalisation, even modest, for several decades".

Mr Van Miert added that conclusion of a large number of long-term contracts between Electrabel and intercommunales was an EU issue since the contracts together "represent a very important part of the electricity market in Belgium".

Electrabel vigorously denied yesterday that there was anything anti-competitive about the contracts, which it said were not exclusive.

"The municipalities entrust to Electrabel the mission to produce, on behalf of the intercommunales, the necessary energy for their clientele. The municipalities retain the possibility of being supplied by other means," it said.

It added that contracts were not being prolonged for 30 years from the present, but by up to 18 years, to make a total of 30 years, depending on the length of intercommunales' existing contracts. It said electricity supply contracts with Belgian municipalities had traditionally lasted 25 or 30 years.

Electrabel said its offer to sell shares to intercommunales was made in response to the intercommunales' own desire, expressed in the early 1990s, to get involved in electricity generation.

US challenges Canada over magazine tax

By Nancy Dunne in Washington and Bernard Simon in Toronto

Kantor: 'action is justified'

Washington will challenge Canadian practices excluding US magazines in the Canadian market by taking its case to the World Trade Organisation. Mr Mickey Kantor, US Trade Representative, said yesterday.

The case involves an 80 per cent tax on advertising in US magazines which publish special editions for the Canadian market. The USTR office says the tax was designed to prevent Time-Warner, the US media group, publishing a Canadian edition of its Sports Illustrated magazine.

"Our action is justified on the merits of the case, and because it is important in setting a clear precedent the US is prepared to act on so-called cultural issues where there is discrimination against US interests," Mr Kantor said.

"The Clinton administration is committed to combating the growing attack on our country's publishing and entertainment industries."

USTR said the tax, imposed on December 15, 1995, was one of a number of discriminatory practices against US magazines publishing Canadian editions. It was introduced following lobbying by Canadian publishers against Sports Illustrated, which had sought to circumvent discrimination against foreign magazines by introducing a "split-run" edition, printed in Canada but with limited Canadian content.

Four in every five magazines sold in Canada are foreign publications. Domestic publishers worry that low-cost, "split-run" editions will drain the advertising pool and leave little for Canadian magazines. Canada does not allow tax deductions to Canadians advertising in such publications, and postage rates are higher than rates for Canadian magazines, USTR says.

In filing the case with the WTO, the US had asked for consultations with the Canadian government to help settle the dispute. If a settlement is unsuccessful, the complaint could lead to US sanctions against Canada.

The WTO action is being taken within US trade laws under which Washington could impose trade sanctions 30 days after a WTO decision or 18 months after a US investigation into Canada's action is started, whichever is earlier.

Earlier this year, Mr Kantor expressed "disappointment" Canada had "chosen to evict a US business enterprise set up in Canada consistent with Canadian law and with the full knowledge of the Canadian government." Ottawa secured an exemption for cultural industries, including the book trade, from the North American Free Trade Agreement.

Last week, the US and Canada resolved a battle over country music broadcasts through an agreement on a joint venture in Canada. The US had been planning trade sanctions in retaliation for a Canadian decision to stop broadcasts of US-owned Country Music Television when a new Canadian service, New Country Network, was launched at the end of 1994.

The agreement calls for the merging of the two operations into a single network, Country Music Television-Canada. In February, Mr Kantor launched an inquiry expected to result in sanctions, but later delayed a decision.

Apec may see $303bn boost

By Nikki Tait in Sydney

The free trade objectives endorsed by countries of the Asia Pacific Economic Co-operation forum could generate a real income gain of US$303bn per annum for Apec members, according to a report by Australia's Industry Commission.

The 18 countries which make up Apec have committed themselves to free and open trade and investment within the Asia Pacific region by 2010 at the latest for industrialised countries and 2020 for developing nations.

The $303bn incremental gain suggested by the Industry Commission model would come after the 2020 measures have worked through.

It assumes total elimination of all trade barriers, including those in the services sector.

The commission estimated that a further gain of $216bn per annum could come from relatively narrow trade facilitation measures.

More extensive measures, covering standards, competition policy, procurement and regulation could add up to an additional $442bn a year.

However, the report also concluded that if "sensitive" sectors, such as agriculture, were excluded, the economic benefits would be "dramatically" reduced.

"Failure to advance agricultural liberalisation beyond the Uruguay Round commitments would mean forgoing $106bn of real income gains – that is, 61 per cent of the total benefits of $175bn from liberalisation in traded goods, or 35 per cent of total trade liberalisation benefits of $303bn after inclusion of services," it said.

"Moreover, if agriculture is excluded, $10bn of annual free rider gains would flow to the European Union."

The former government in Australia – voted out of office earlier this month – was one of the staunchest supporters of the Apec agenda, and fought to ensure that agriculture was not specifically excluded from the trade barrier reduction commitments.

The report suggests that both countries with efficient, export-oriented agricultural sectors – such as Thailand in the processed rice area and New Zealand with dairy products – and those with highly assisted rural sectors would see lower gains if agriculture was excluded from the Apec process.

It finds, for example, that while Japan and Korea would avoid "significant structural adjustment" by excluding agriculture, this would be "at a significant economy-wide cost".

The one exception is China, which is found to be just as well off whether agriculture is excluded or not, although the report admits "in terms of real gross domestic product, China is projected to do slightly better when agriculture is excluded".

Turkey, Israel to scrap barriers

By John Barham in Ankara

Turkish trade with Israel

Source: Turkish Foreign Trade Secretariat

Turkey and Israel today will sign a trade agreement eliminating all tariff barriers between them by 2000.

The agreement is intended to be the first of a series linking Mediterranean countries in a closer political and commercial relationship with the European Union. The EU hopes to establish a Mediterranean free trade zone by 2010.

Israel and Turkey recently signed agreements with the EU which require them to negotiate trade liberalisation deals with all countries with which the EU has preferential trade agreements.

Mr Temel Iskit, a senior Turkish foreign ministry official, said: "Israel has the strongest relationship with the EU and the most trade, so therefore we decided to start with them."

Turkey and Israel also have close political relations and market-oriented economies. "Turkey and Israel are complementary economies. There is hardly any overlap. Israel is a high-wage, high-tech economy. Turkey is a low-income, low-cost economy," said an Israeli official.

However, trade volumes are relatively small. Merchandise trade between Israel and Turkey was only $363m last year, but Israel hopes it could reach $1bn-$2bn by 2000. Israel and Turkey have agreed to eliminate tariffs with all restrictions progressively lifted by 2000.

Turkey seems to offer the greatest potential. Although average incomes are one quarter those of Israel, Turkey has a large, rapidly growing population.

Israel expects to increase exports of high-tech electronic, medical and telecommunications equipment.

However, Israel's high-cost textile industry has lobbied hard against the agreement, fearing competition from Turkey's big textile companies.

Most of Israel's textile industry is made up of small companies already struggling to compete against growing foreign competition, even though import tariffs are as high as 75 per cent.

Although Israel is an attractive market for Turkish textiles, few other industries see great potential in the small but sophisticated Israeli market. Turkey excels in low- to medium-technology goods, construction and food processing as well as textiles.

However, officials from both countries say there is considerable scope for joint ventures, marketing alliances and technology transfers.

For instance, Israel has a generous textiles agreement with the US, but Turkish exports are subject to quotas. Washington requires that Israeli companies finish only 35 per cent of the garments they export to the US. The remainder can be finished outside the country, but with "Made in Israel" labels.

Israeli companies could begin producing clothing for the US in Turkey, where average wages are less than a quarter of the Israeli minimum monthly wage of $900.

There is considerable scope for co-operation in agriculture. Turkey is building a $32bn complex of hydro-electric dams and irrigation systems known as the South-east Anatolia Project (GAP) in its arid south-east region.

It is planning to double production of cotton there and turn the area into a large food producer. Israel has two small pilot irrigation projects in the south-east, which could become an important market for irrigation equipment and high-yield seeds.

Although the free trade agreement does not cover defence sales, Turkey is an important military market. Turkey's air force has awarded Israel Aircraft Industries a $650m five-year contract to upgrade avionics of its F-4 Phantom jets.

Turkey is a leading destination for Israeli tourists, who spend about $300m a year in Turkey. Some also buy large quantities of cheap leather goods and clothes to sell in Israel.

WORLD TRADE NEWS DIGEST

India car sales growing sharply

Car sales in India are growing by almost a third a year, according to Indian industry figures. Moreover, the increase comes before the launches of most new European and South-East Asian models due to enter the Indian market in the next year.

Car sales for the first 10 months of the fiscal year were up 31 per cent at 270,842 models on the same period a year ago, according to the Association of Indian Automobile Manufacturers. April to January sales in 1994-95 of 206,594 cars, by comparison, were up 19 per cent on the preceding year.

Maruti, the joint venture between Suzuki of Japan and the Indian government, increased its market dominance. Its share rose from 74 to 78 per cent in the first 10 months of this year, with its nearest rival being Premier Automobiles at 9 per cent. Local carmakers Hindustan Motors and Telco followed with respective shares of 8.24 and 2.79 per cent.

However, despite its plans to raise production by 100,000 vehicles a year to more than 300,000, Maruti is likely to lose market share gradually to a host of new entrants this year. Opel, Fiat, Ford, Hyundai and others are launching models this year, mostly in joint venture with Indian partners.

AIAM figures for the period show the first signs of newcomers to the market, however, with sales of 4,800 Cielo models, produced by Daewoo and DCM, the Indian manufacturer (market share 1.65 per cent) and sales of 1,134 Peugeot 309s, launched recently by the French carmaker and Premier Autos (0.38 per cent). *Mark Nicholson, New Delhi*

EU protest over chip pact

Trade officials from the US, Japan and the EU met in Brussels yesterday to discuss industrial co-operation in the semiconductor industry. Although not officially on the agenda, the talks addressed the exclusion of EU chipmakers from a bilateral agreement between the US and Japan due to expire in July.

The EU believes the arrangements, which enshrine expectations for a 20 per cent foreign market share, are discriminatory and pointed out that Japanese and US penetration of the EU market was 66 per cent. However, in spite of growth in the European semiconductor industry – expected to reach 16 per cent of world market share by 1998 – the EU's penetration in Japan was less than 1 per cent and only 6 per cent in the US. EU penetration in Asia, excluding Japan, was 9 per cent, officials said.

Brussels is arguing that future talks should revolve around some form of intensified industry-to-industry co-operation which would begin trilaterally, but become multilateral. Japan would like to scrap the arrangement altogether, while the US wants it continued. *Emma Tucker, Brussels*

Coca-Cola airlifts bottling line

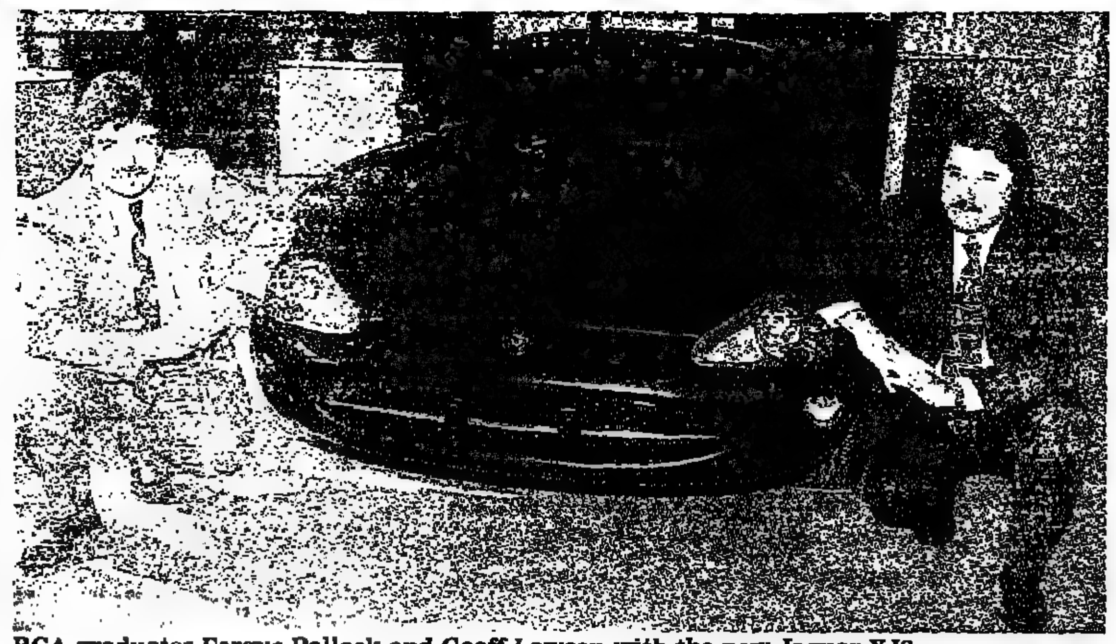
Coca-Cola of the US is moving an entire bottling line by air for the first time. The 81-tonne bottling operation is being flown from Atlanta's Hartsfield international airport to Vladivostok aboard an AN-124 freighter.

The aircraft is one of eight 150-tonne capacity AN-124s – the world's largest commercial freighters – operated by the UK's HeavyLift Cargo Airlines under an agreement with Russia's private cargo airline Volga-Dnepr. HeavyLift is a unit of Trafalgar House of the UK.

The bottling line, part of a joint venture between Coke and a local Russian partner, will be the first Coca-Cola bottling operation in eastern Russia. *Reuter, Atlanta*

The art of creative ingenuity

William Packer admires a fascinating exhibition at the RCA



RCA graduates Fergus Pollock and Geoff Lawson with the new Jaguar XJ8

Yesterday at the Royal College of Art, the Jaguar XJ8 went on public show for the first time, the latest car in a line that goes all the way back to the E Type. But why the RCA?, you might say. In fact there could hardly be a more appropriate place, or a more appropriate time. *Design of the Times*, the exhibition which the XJ8 now joins until its close, celebrates the centenary of the college's reorganisation in 1896. And two graduates of the college, Geoff Lawson (1968 furniture) and Fergus Pollock (1975 vehicle design), designed the car.

The Royal College of Art is in fact rather more than 150 years old, founded in 1837 as the Government School of Design. But centenaries are useful pegs, and that of the school's receiving its royal accolade is too useful a moment to pass up – though the fact that it was acknowledgement of having educated a royal daughter, Princess Louise, in the art of sculpture, is but one of the many ironies this fascinating show throws up.

Indeed the step up from Government School to Royal College did mark a significant reorganisation in both practice and principle, moving away from the theoretical and analytical basis of Victorian education in design, with its emphasis on ornamental orthodoxy and subservience to manufactures, towards something more direct and personal. Not by chance was this also the moment when its other constituent schools of decorative and mural painting, sculpture and architecture were properly established.

The gallery given over to the story of this early debate, begun by the Prince Consort in the 1840s, is by far the most absorbing part of the exhibition, besides being the most beautiful in its recreation of a Victorian museum. In an age of inter-active display and advanced, theme-park museumship, how the heart aches for those dim, quiet rooms with their rows of mahogany cabinets given to the simple celebration of beautiful things.

The story is told through its objects, all of them the product of teachers and students associated with the school and emergent college, save for those bought in as salutary warning or example. These last were the cause of the foundation of the Victoria & Albert museum – a fine case of the artist-designer's immediate needs devolving in the public interest. From the exquisite instructive watercolours of Owen Jones for his "Grammar of Ornament" in mid-century, the glass and silver of Christopher Dresser and the terracotta sculpture of Jules Dalou in the 1870s, to the war-memorial maquettes of Charles Jagger after 1918, surprise and delight follow each other that such rich variety should have been produced over such a period. Lutyens, Kate Greenaway, Redgrave, Lethaby, Pugin, Poynter – the list is endless.

The point so effortlessly made is not so much that art and design go together, but that at the highest level they are inseparable, aspects of the same thing. Is a Christopher Dresser claret jug a great work of art? The Jaguar XJ8? Why not? The argument is only bedevilled by the narrow view that usefulness is a virtue immediately quantifiable, as though discrimination, speculation, intuition and quality have no place in the business. One may as well say that a plastic bottle has as much worth as that claret jug, if it serves merely to keep the liquid in. By the end of the show, and its demonstration of infinite contemporary creative ingenuity, one leaves fully aware that – even with plastic bottles – there are plastic bottles and plastic bottles.

The truth is that true artists are designers too, and designers artists; and it is the imaginative freedom and open-endedness of the one, and the particular disciplines of the other that give to each their opportunities. It is a true symbiosis, and any educator or governmental administrator who does not know that, and tries to separate the two, knows nothing.

That point again could hardly be better demonstrated than in the section given to the college between the wars, when William Rothenstein was principal and such artists as Henry Moore, Barbara Hepworth, Edward Bawden, Eric Ravilious, Enid Marx and Paul Nash among its teachers and students. What is so impressive is not their individual quality as artists, which is not in doubt, but that their practice in the fields of applied design, from fabric printing to advertising illustration, was assumed as a matter of course.

Since the 1940s, the vagaries and exigencies of government funding have often seemed to force too close a specialisation upon departments. The physical move of the sculpture school away from Queen's Gate to Battersea, and the rumoured exile of the painting school, are dangerous symptoms of a malaise that in time would destroy all that 150 years of integrated effort have built up.

But the college is resilient, as full as ever of ideas and flights of fancy, new technology and old tricks. So designers from the RCA have shaped the world we know, from the plastic chairs we sit on, the cups we drink from, the Stanley knives we cut ourselves with, to the road signs we drive into. But only an artist, Paul Priestman, could have made the rotary fabric fan, that rises and collapses in the draught which itself creates, and will not cut our fingers off – as neat a symbol of the college as could be wished.

Design of the Times – 100 years of the Royal College of Art: Royal College of Art, Kensington Gore SW7, until March 20: sponsored by LG Electronics.

Irish theatre in London

Hate the sins but love the sinners

Occasionally a theatre production arrives at a moment when, by coincidence, its resonance is amplified by external events. Patrick Mason's excellent Abbey Theatre revival of Frank McGuinness's 1985 play comes to London just as hopes of a renewed Irish ceasefire are, it seems, finally buried.

Following a group of Ulster Protestant army volunteers from joining up until their slaughter on the fields of France, *Observe The Sons of Ulster Marching towards the Somme* sensitively and sympathetically portrays them both as individuals and representatives of a culture, whilst quietly despairing at the militant bigotry of that culture's political and religious aspects. Seven months on from the production's initial British performances in the Edinburgh Festival, the play's sub-texts have regained a gloomy immediacy; for this Northern Irish protestant reviewer, it is at times almost ineffably moving.

Following the aged Kenneth Pyper's deathbed soliloquy to the ghosts of his long dead comrades – a fine blend of oratory and emotion – Peter Gowen's Young Pyper appears in the makeshift bunkhouse. Pyper, as befits his name, plays with consummate skill upon his fellows, whether cowing them with an assumed bearing of military command, adopting an air of languid effeminacy or deadpanning a ludicrous anecdote from his past to test the limits of their gullibility. Gowan is masterly in the role, giving himself up to the switchback changes in mood but maintaining the undercurrent of self-loathing which motivates Pyper's provocations.

As the bunkhouse fills with volunteers from across the province – a disillusioned preacher from Tyrone, an uneasy young Derry lad, an Enniskillen blacksmith, two UVF volunteers from the north coast and a brace of swaggering Belfast boors – the individual tensions and conflicts dissolve imperceptibly into an affirmation of communal identity, thanks to McGuinness's finely geared writing.

This precision is sacrificed at times during the overlong third act depicting pairs of the men on leave, but McGuinness and Mason continue to muster moments of plangent power as Pyper and Craig become lovers on an island in Lough Erne, and the Coleraine men try to find courage on a rope bridge on the Antrim coast. Lalor Roddy in particular comes into his own as Belfast man Nat McIlwaine on a mini-Twelfth of July march, bewailing the death of Belfast's pride and mortifying himself upon a Lambeg drum (because it is not done properly unless your wrists bleed).

The company's final bonding on the morning of the fatal offensive marries humour (in a piggyback re-enactment of the Battle of Scarva) with growing fear and despair as the moment of reckoning draws near. The last ritual, in which the men first don then exchange Orange sashes, encapsulates at once all that is laudable in and all that curses the Northern Protestant identity: McGuinness hates the sins but loves the sinners.

The production as a whole has lost a little fine tuning in the intervening months, and the least assured performances are noticeably in those roles which have been recast. Nevertheless, it remains a mightily impressive staging of an exceptionally insightful play.

Ian Shuttleworth

At the Barbican Theatre, London EC2 until March 16 (0171 638 8891), then touring to Blackpool, Liverpool, Malvern and Plymouth.

Anna Manahan and Marie Mullen: superb in Martin McDonagh's 'The Beauty Queen of Leenane' Alastair Muir

Bleak, black comedy from Galway

Several years ago, the Irish novelist and playwright Dermot Bolger told me why he, and other writers of his generation, were keen to set their work in an urban context. It was to get away from the lingering idea that the real Irish were characters out of Synge, redeemed by charm, blarney and poteen, that true Irishness resided in "a bog to the West of Galway".

Interestingly, this is precisely where the young Irish playwright Martin McDonagh sets his first play, *The Beauty Queen of Leenane*. But the picture he paints is far from charming. Where Bolger, Roddy Doyle and others are documenting urban alienation in contemporary Ireland, McDonagh explores rural misery. His characters may live in scenic Galway, but their home is small town Ireland, where poverty, isolation and lack of prospects corrode the soul.

McDonagh's bleak, startlingly good play takes place within the modern equivalent of a bothy, a drab little cottage. Here live Maureen, a 40-year-old spinster, and Mag, her cantankerous, hypochondriac old mother. When the play opens they are bickering amusingly about Complan and porridge. Mag sits in her rocking chair like some giant toad, issuing orders, while Maureen stamps around hatchet-faced, retorting with insults.

But the comedy becomes progressively blacker after the frustrated Maureen finally bags a man at a local party. With the possibility of her daughter escaping, Mag's spite turns purely malicious. The plot twists that McDonagh employs are somewhat creaky, but his mastery of the psychological terrain he explores is utterly gripping. His dialogue is astonishingly assured and he has a sharp eye for casual, everyday cruelty.

While writers frequently focus on married couples soldered together by hatred and mutual resentment, McDonagh investigates the same strange phenomenon between relatives. Who is the more unhinged of the two women? Who is the more cruel? And why and how did their hatred begin? These are questions to which he offers no answers. He is wonderful at capturing the mean little acts whereby people torment one another: Mag deliberately emptying her chamber pot down the sink; Maureen perversely buying biscuits she hates because she knows her mother also loathes them. And the switch from these trivial acts of cruelty into fully-fledged brutality is so well done that the night I was there the audience gasped.

Garry Hynes's staging, a co-production between the Royal Court and the Galway-based Druid theatre company, expertly charts every nuance of hatred. On Francis O'Connor's detailed set, you can almost smell the rancid sink and feel the damp air. Performances are superb. Anna Manahan's mountainous, petulant Mag and Marie Mullen's catty, unstable Maureen sidle round one other like beasts preparing for the kill. Both transform before your eyes, Manahan from self-pitying invalid to vicious schemer to pathetic old woman; Mullen from pinched spinster through a flash of prettiness to wrecked, empty hull. There are fine performances too from Brian F. O'Byrne as Maureen's halting, shy beau, and Tom Murphy as his embittered younger brother. A night of bleak, black comedy that ushers in a voice we will surely hear more from.

Sarah Hemming

Royal Court Theatre Upstairs, London SW1 to March 23 (0171-730 2554).

Talent and tension: best of the Beatles

Now this is more like it. The release of the first volume of The Beatles' *Anthology*, in tandem with the insipid "Free As A Bird", threatened to bring a much-loved legend into serious disrepute. Adolescent fumblings in Master McCartney's sitting room and cute studio giggles may have riveted pop's trainspotters, but there was little real insight into the group's extraordinary creativity. Thankfully, *Anthology II*, released next week, tells the true story.

Let us quickly pass over the terrible "Real Love", the second, and surely the last, exercise in beyond-the-grave mixing skills. *Anthology II* kicks off at the height of Beatlemania, and even unearths a couple of mediocre unreleased songs, "If You've Got Trouble" and "That Means a Lot". But by the end of 1965, the group was already sounding weary; the live recordings from Shea Stadium and, the following year, Budokan have surely only been included as evidence that the touring had to stop.

So we come to the studio years. After five years of non-stop working, the group took a three-month break at the beginning of 1966. They returned in April relaxed and sizzling with electrifying ideas. The Beatles' best songs from *Rubber Soul*, "Norwegian Wood" and "I'm Looking Through You", had already been ahead of their time; John Lennon's "Tomorrow Never Knows" came from another planet. The version included here, without the overdubs and tape loops of the final *Revolver* mix, is the highlight of this set: a dense, claustrophobic performance, awesome in its sheer originality.

Paul McCartney struggled not to be left behind. But he countered with "Eleanor Rigby", represented here by George Martin's deft arrangement for double string quartet, and the Motown-influenced "Got To Get You Into My Life", an early take of which shows just how much these songs were developed in the studio.

The Budokan performances of "Rock and Roll Music" and "She's A Woman" from June 1966 illustrate the double-life the Beatles were now living: restless innovators in the studio, tired teen idols on the road. Later that year, they moved into Abbey Road to start work on *Sgt Pepper's Lonely Hearts Club Band*. "Strawberry Fields Forever", left off the album, is revealed here in three versions, from Lennon's home-made demo to something approaching the final cut. The epic "A Day In The Life" is so skilfully assembled from an assortment of out-takes that it rivals the master version.

Throughout 1967, the creative tension generated by Lennon and McCartney's rivalry continued to produce masterpieces. Lennon's "I Am The Walrus", without Martin's remarkable cello arrangement, is compelling in its own right; McCartney's plaintive demo of "The Fool On The Hill" is extraordinarily polished. "Hello Goodbye" was Paul being clever but trite; "Across The Universe", a superior version here to the *Let It Be* release, was John revelling in his nakedness. Here was another source of tension between the two men which was always bound for an unhappy resolution.

Thus does *Anthology II* comes to its reflective close. Noel Gallagher, Oasis's Beatles-obsessed songwriter, recently made the proud claim that his group's first two albums stood up to those of his heroes. He is right. But be sure he will be listening to *Anthology II* for the next few weeks wondering how on earth he will present to the world his forthcoming work. For The Beatles's work *circa* 1966 and 1967 remains the benchmark of all pop music, and here is some of the most compelling evidence yet assembled.

Peter Aspden

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Nederlands Philharmonisch Orkest: with conductor James Loughran and pianist Kathryn Stott perform works by Britten and Elgar; 8.15pm; Mar 16, 17 (2.15pm)

■ BERLIN

DANCE
Deutsche Oper Berlin
Tel:49-30-3438401
● Ring um den Ring: the Ballett Deutsche Oper Berlin performs a choreography by Maurice Béjartto music by Wagner; 6pm; Mar 17
Komische Oper Tel: 49-30-202600
● Requiem!!: a choreography by Birgit Scherzer to music by Mozart, performed by the Ballett Komische Oper; 8pm; Mar 13
OPERA
Staatsoper Unter den Linden
Tel: 49-30-2082861
● Tancredi: by Rossini. Conducted by Fabio Luisi and performed by the Staatsoper Unter den Linden; 4pm; Mar 17

■ BUDAPEST

CONCERT
Academy of Music
Tel: 36-1-2663108
● Budapest Symphony Orchestra: with conductor András Ligeti and the Hungarian Radio and Television Choir perform Liszt's Les Préludes and Missa solemnis. Opening concert of the Budapest Spring Festival; 7.30pm; Mar 14

■ COLOGNE

OPERA
7.Opernhaus Tel: 49-221-2218240
● Otello: by Verdi. Conducted by James Conlon and performed by the Oper Köln; 7.30pm; Mar 16

■ COPENHAGEN

OPERA
Det Kongelige Teater
Tel: 45-33 14 10 02
● Die Entführung aus dem Serail: by Mozart. Conducted by Andrew Greenwood and performed by the Royal Danish Opera; 8pm; Mar 14

■ GHENT

EXHIBITION
Museum voor Sierkunst
Tel: 32-9-2256876
● Oostenrijk, Zweden en Finland, de Nieuwe Grenzen van de Europese Glaskunst: exhibition focusing on 20th-century glass art in Austria, Sweden and Finland, on the occasion of the entry of these countries into the European Community; from Mar 15 to May 5

■ HAMBURG

OPERA
Hamburgische Staatsoper
Tel:49-40-351721
● Tosca: by Puccini. Conducted by Marc Albrecht and performed by the Hamburg Oper; 7.30pm; Mar 15, 19

■ HANOVER

THEATRE
Niedersächsisches Schauspielhaus
Tel: 49-511-321133
● Ivanov: by Chekhov (in German). Directed by Wickert. The cast includes Bissmeier, Büchel, Bollow, Freier and Meyer; 7.30pm; Mar 13

■ HELSINKI

OPERA
Opera House Tel: 358-0-403021
● Otello: by Verdi. Conducted by Maurizio Barbacini and performed by the Helsinki Opera; 7pm; Mar 13

■ LIVERPOOL

EXHIBITION
Tate Gallery Liverpool
Tel: 44-151-7093223
● Characters & Conversations: British Art 1900-1930: the characterisation of the British artist in the early years of the twentieth century. Juxtaposing paintings from the Tate's collection by artists associated with the Royal Academy, the Slade School, the Bloomsbury and Vorticist groups, the display questions the conventional division between "modernist" and "traditionalist" artists; from Mar 16 to Apr 19, 1997

■ LONDON

ART & ANTIQUE FAIR
Olympia Tel: 44-171-6033344
● London International Bookfair: annual spring publishing event; from Mar 17 to Mar 19
CONCERT
Wigmore Hall Tel: 44-171-9352141
● Kyung Wha Chung and Peter Frankl: the violinist and the pianist perform works by Schubert, Bartók and R. Schumann; 7.30pm; Mar 15

■ MADRID

CONCERT
Auditorio Nacional de Música
Tel: 34-1-3370100
● Orquesta Nacional de España: with conductor José Ramón Encinar and pianist Isidro Barrio perform works by Rodrigo, Liszt, Encinar and Stravinsky; 7.30pm; Mar 15, 16, 17 (11.30am)

■ MUNICH

OPERA
Nationaltheater
Tel: 49-89-21851920
● L'Italiana in Algeri: by Rossini. Conducted by Antonello Allemandi and performed by the Bayerische Staatsoper; 7pm; Mar 14, 16

■ NEW YORK

CONCERT
Avery Fisher Hall
Tel: 1-212-875-5030
● Nederlands Kamerorkest: with conductor/pianist Philippe Entremont and narrator Claire Bloom perform works by Roussel, Saint-Saëns and Brahms; 8pm; Mar 13
JAZZ & BLUES
Carnegie Hall Tel: 1-212-247-7800
● The Carnegie Hall Jazz Band: with music director Jon Faddis and guest artist saxophonist James Carter perform jazz music; 8pm; Mar 14
OPERA
New York State Theater
Tel: 1-212-875-5570
● Tosca: by Puccini. Conducted by Joseph Colaneri and performed by the New York City Opera. Soloists include Inma Egido, Allan Glassman, Mark Delavan, Richard Woods and Joseph McKee; 8pm; Mar 13

■ PARIS

CONCERT
Théâtre des Champs-Elysées
Tel: 33-1 49 52 50 50
● Beaux Arts Trio: perform Hummel's Trio for Piano, Violin and Cello No. 4, Op. 65 and Schubert's Trio for Piano, Violin and Cello No. 3, Op. 99; 11am; Mar 17
THEATRE
Comédie Française, salle Richelieu Tel: 33-1 40 15 00 15
● Moi: by Eugène Labiche and Edouard Martin. Directed by Jean-Louise Benoit. The cast includes Dominique Constanza, Jacques Sereys, Yves Gasc, Anne Kessles and Jean-Pierre Michaël; 8.30pm; Mar 15, 17, 18

■ STOCKHOLM

OPERA
Kungliga Teatern - Royal Swedish Opera House Tel: 46-8-7914300
● Madama Butterfly: by Puccini. Conducted by Muhai Tang and performed by the Royal Opera Stockholm. Soloists include Noriko Ogawa-Yatake, Inger Blom, Carina Morling and Ingus Petersons; 7.30pm; Mar 13

■ VIENNA

CONCERT
Konzerthaus Tel:43-1-7121211
● Wiener Symphoniker: with conductor Georges Prêtre, oboist Harald Hörth, clarinettist Reinhard Wieser, horn-player Eric Kushner and bassoonist Patrick De Ritis perform Mozart's Sinfonia concertante for oboe, clarinet, horn and bassoon in E flat and Mahler's Symphony No. 5; 7.30pm; Mar 16, 17 (11am)
Musikverein Tel: 43-1-5058681
● ORF-Symphonieorchester: with conductor Vladimir Fedoseyev and baritone Dmitri Hvorostovsky perform works by Lauermann, Mahler and Dvorák; 7.30pm; Mar 15
OPERA
Wiener Staatsoper
Tel: 43-1-514442960
● Siegfried: by Wagner. Conducted by Peter Schneider and performed by the Wiener Staatsoper. Soloists include Gabriele Schnaut, Wolfgang Schmidt, Robert Hale and Franz-Josef Kapellmann; 5pm; Mar 13

■ ZURICH

CONCERT
Tonhalle Tel: 41-1-2063434
● Yo-Yo Ma and Kathryn Stott: the cellist and pianist perform works by R. Schumann, Wilde, Bridge, Messiaen and Brahms; 7.30pm; Mar 14

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Financial Times Business Tonight

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Financial Times Business Tonight

Martin Wolf

Lessons from the antipodes

New Zealand's economic reforms have involved the most comprehensive restructuring of any OECD country. The results have been impressive

Occasionally, it is necessary to go to the opposite end of the globe to realise how mistaken conventional wisdom can be. In the UK, many still believe that low inflation and tight fiscal policies must reduce economic growth. Others argue that small countries can have no influence, let alone, control over their economic destinies. This is all nonsense. Just go to New Zealand and look.

Between 1992 and 1995 real economic growth averaged 4.1 per cent a year and business investment in plant, machinery and equipment rose at an annual rate of over 20 per cent. Unemployment has fallen from 10.9 per cent at its peak in 1991 to 6.1 per cent, while employment grew by 13.2 per cent between the last quarter of 1991 and the third quarter of 1995.

Yet average weekly earnings have been rising at less than 3 per cent a year. Partly because of the lack of wage pressure, underlying inflation only briefly exceeded a year-on-year rate of 2 per cent in the course of 1995. Over the three years since 1992, annual inflation has averaged 1.7 per cent.

The government has run fiscal surpluses for the past three years: that for the present financial year is expected to be 3.3 per cent of gross domestic product. The government is committed to paying off its foreign currency debt within the next 12 months, while net public debt is forecast to be down to 33 per cent of GDP at the end of this financial year, from 47 per cent in the middle of 1991. New Zealand is one of the few countries that would meet the Maastricht treaty criteria for inflation and fiscal deficits.

Last month Moody's, the credit reference agency, upgraded the government's foreign currency debt to AA1, a notch lower than AAA. Nominal yields on bonds, at 7½ per cent, are below those of the UK and just 1½ percentage points higher than of the US. Remember that New Zealand had to offer some 10 percentage points more than the US in the mid-1980s.

A series of reforms carried out by both Labour and National party governments since 1984 is responsible for this impressive turnaround. Taken together they represent the most comprehensive restructuring of any member state of the Organisation for Economic Co-operation and Development.

Under the Labour government, elected in 1984 and re-elected in 1987:

- Import controls were phased out and tariffs were reduced unilaterally and as a part of the Closer Economic Relations agreement for free trade with Australia.
- Subsidies were abolished, notably to farming.
- Wage and price controls were eliminated and wage bargaining freed from most government interference.
- The trading activities of government departments were separated from policy-making and many were privatised.
- Taxation was reformed, with the introduction of a value-added tax, the Goods and Services Tax.
- The currency was floated, foreign exchange restrictions removed and the financial markets liberalised.
- The Reserve Bank of New Zealand was made independent of government in 1989 and set a target for annual inflation of 0-2 per cent.

Then, under the National government elected in 1990 and re-elected in 1993:

- The labour market was almost completely liberalised, with freedom for workers and employers to enter into employment contracts, as individuals or in groups.
- Cuts were imposed on social welfare benefits.
- The government was required to produce transparent accounts and adhere to normal accounting standards for the public finances.

As a result of these reforms, the world's view of New Zealand's has been transformed. For example, the annual "World Competitiveness Report" produced by the World Economic Forum in Davos, last year rated it as the world's eighth most competitive economy. To New Zealand's great pleasure, this puts it well ahead of Australia.

One question about the performance of the 1990s is whether it is more than a few years of recovery after a longish period of low and unstable growth (see chart). The answer is that the economy can now probably sustain growth at 3 to 4 per cent a year. This would be better than in the 1960s and 1970s, when growth was among the slowest of all OECD members, if well below rates achieved in east Asia.

One reason continued growth looks plausible is the low rate of inflation. While the Reserve Bank had to tighten monetary policy in 1995 to bring inflation back within the target range, the consensus is that it can achieve its objective without having to push economic growth much below 2 per cent.

Another cause for optimism is the strong fiscal position. As Mr Bill Birch, the finance minister, said in February presenting his *Tax Reduction and Social Policy Programme*: "Rising national income, with a growing number of people in work, and a robust, broad-based tax system are boosting the tax take of the government quite dramatically. For the first time in decades, it is affordable now to reduce public debt, and increase spending on education and health, and make a major new investment in the future of low- and middle-income families, all at the same time."

High rates of business investment are also likely to be sustained. Balance sheets have been transformed, with the ratio of company debt to total assets down from nearly 65 per cent in 1991 to under 50 per cent last year. It should be possible for businesses to expand investment in response to the pressures on capacity they now confront.

Yet there are also problems. Savings rates are well below east Asian standards, for example. One reason for this must be the high level of borrowing for house purchase. The housing market is also generating inflationary pressure, notably in Auckland, New Zealand's largest city.

To curb inflation, the Reserve Bank has pushed short-term rates of interest up, with inter-bank rates now 8.9 per cent, from 4.6 per cent in early 1994. This, in turn, has contributed to an appreciation of the New Zealand dollar that has squeezed businesses exposed to foreign competition. The current account deficit rose to around 4 per cent of GDP at the end of 1995. But competitiveness cannot be too seriously impaired, since the balance of trade in goods and services (excluding interest and dividends) is positive.

Almost inevitably, radical reforms have created a political backlash. This was shown in the referendum of 1993, when voters decided to punish politicians by switching from a first-past-the-post electoral system to proportional representation on German lines. It was also shown in the splitting of the left between Labour and the more left-wing Alliance which wants to reverse most of the reforms.

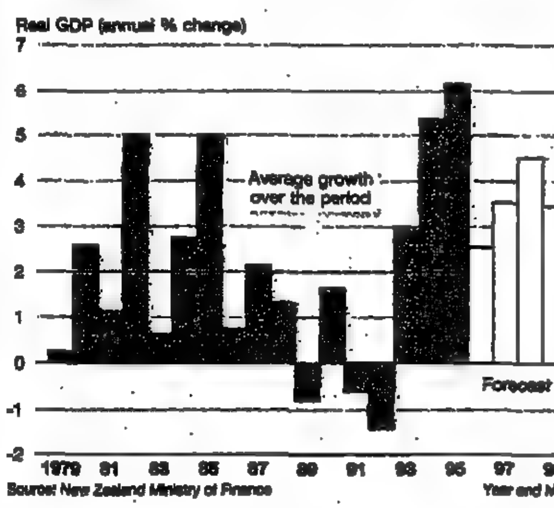
Reform has also imposed pain. Inequality has increased, as has insecurity. But this was inevitable in moving from the unsustainable positions of the late 1970s and early 1980s, when skill differentials in pay were minimal and overmanning was rife.

Moreover, in recalling the costs of reform, it is essential not to forget those of non-reform. At the end of Sir Robert Muldoon's period in office, New Zealand was on the verge of a default on its external debt and of an uncontrollable domestic inflation, with a fiscal deficit of 9 per cent of GDP, even at a cyclical peak in economic activity. Big changes had long been needed in a slow-growing economy dependent on exports of a few agricultural commodities. By 1984 the *status quo* was no longer an option.

This was why the Labour party started the reforms. Since many New Zealanders know they were on the edge of disaster, a broad reversal seems inconceivable.

New Zealand has demonstrated that orthodox reforms, energetically executed, can make a difference to an economy's prospects. For this reason, it offers important lessons. Are bigger, more complacent countries, notably in Europe, willing to learn?

The bumpy road to economic recovery



Source: New Zealand Ministry of Finance

LETTERS TO THE EDITOR
Number One Southwark Bridge, London SE1 9HL
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Policymakers to search for fair approaches

From Mr Dan Corry.

Sir, Peter Martin ("No more cosy backyards", March 7) points to the pressure on domestic companies to react to increasing international competition. His focus was on the implications for firms, but there are many public policy issues raised as well, the job related ones having been discussed by Robert Reich in your pages earlier in the week.

A particular concern arises from the fact that the competition that is emerging is primarily of the cherry-picking variety, as global firms try to pluck the most profitable local business from the domestic firm.

The response to this from the domestic firm has to be to compete vigorously to keep this business by lowering prices for those customers. This usually involves at least some rebalancing of domestic price structures, with the smaller, undesirable, consumer paying more as the cherries pay less and less.

In some areas that causes few problems, but in others, particularly the utilities, it raises profound issues. In the UK, for instance, competition in electricity now means that the rich (direct-debit payer) pays less per unit than the poor (pre-payment meter user). The system is positively regressive.

Cross subsidy by cosy domestic monopolists may have had its day, but its demise leaves policymakers to search for new approaches to deliver fairness and social cohesion.

Dan Corry,
senior economist,
Institute for Public Policy Research,
30-32 Southampton Street,
London WC2E 7RA, UK

Conservation produces economic gain and jobs

From Ms Barbara S. Young.

Sir, Michael Wigan's article "Battles for the Scottish Highlands" (February 17) implies that conservation bodies, particularly the Royal Society for the Protection of Birds, are now the *dominant* landowners in Scotland. Nothing could be further from the truth, for, proud though we are of the reserves we own, in total they amount to 0.4 per cent of Scotland. Perhaps our active role in the interests of conservation makes it seem we manage more land than we do.

However, more seriously, Mr Wigan gives an erroneous impression that conservation management produces no economic benefit to communities or jobs. In an island like Britain, where little land is truly "natural", reserves management means undertaking farming, forestry, sporting and a host of other familiar practices. The RSPB has many graziers, contract estate workers and farming and crofting partners who are helping us manage our estate across Scotland.

Conservation is a substantial and growing employment sector which employs directly as many people in the highlands and islands as fish farming. Maintaining a healthy and wildlife-rich countryside benefits everyone, and this increasingly forms the backbone of the tourist industry upon which much economic activity in remote rural areas depends.

Our EU-funded "Life" project in Caithness and Sutherland will pump £400,000 into education, "green" tourism and conservation payments to landowners in the area.

Last, the RSPB is not awash with funds. Financial reserves are sufficient to keep us going for less than four months. This is much less than many charities which have the sizeable funds in reserve.

Barbara S. Young,
chief executive,
Royal Society for the Protection of Birds,
The Lodge,
Sandy,
Bedfordshire SG19 2DL, UK

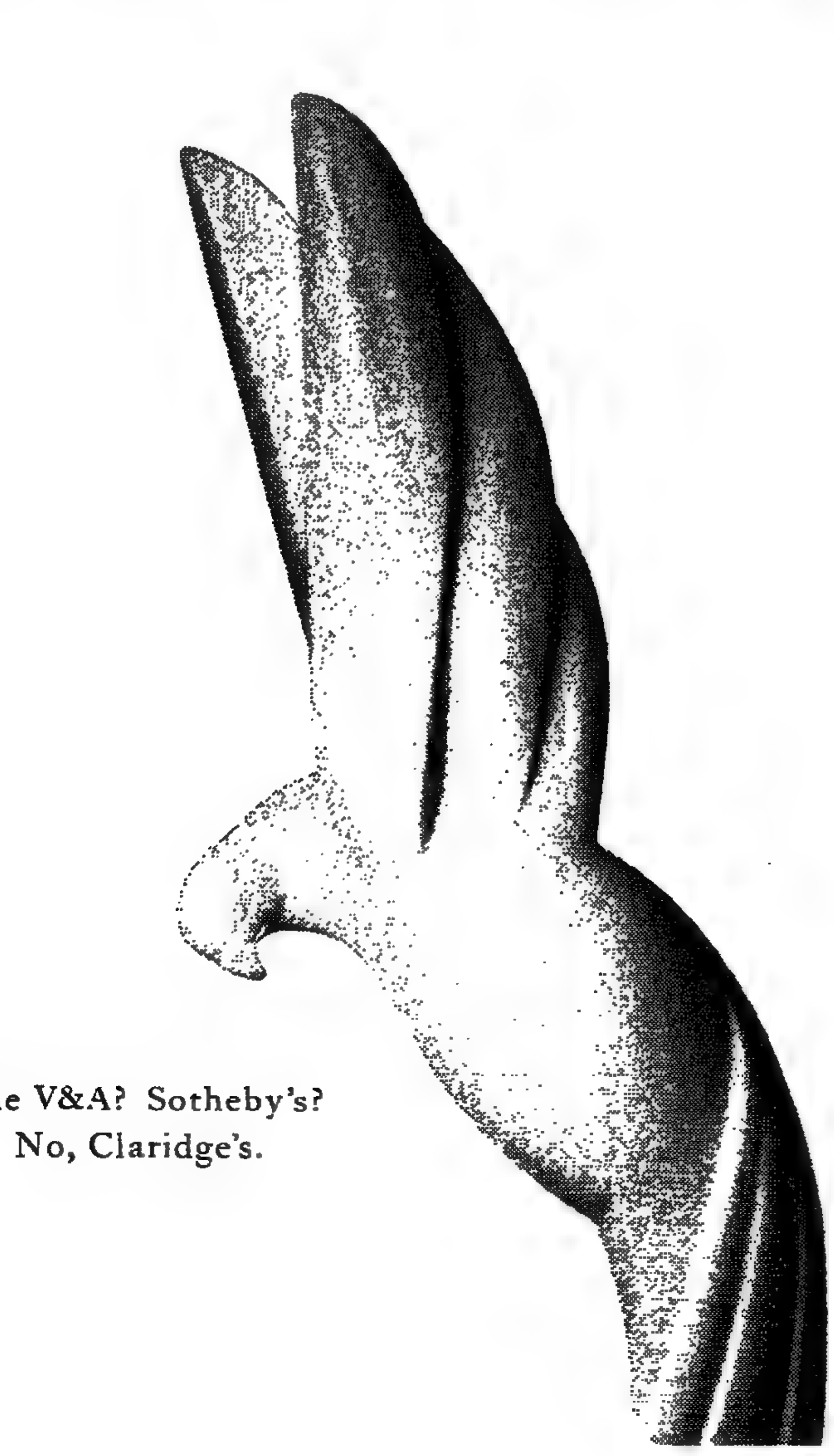
Dialogue call backed

From John Tattersall,

Sir, I was pleased to read your brief report ("Call for closer regulator links", March 8) on Michael Foot's address to the International Swaps and Derivatives Association.

My firm fully supports his recommendation that international laws be changed to allow more co-operation between regulators. We consider that this should be taken further to permit a more constructive dialogue between regulators and auditors. While UK auditors have a statutory duty to report matters of potential regulatory concern to the Bank of England, the Banking Act 1987 restricts the Bank's ability to communicate information to the auditor. If auditors are to be enabled to perform their role so as to provide the greatest benefit to users of financial statements, it is in the interests of allfor the fullest information flow to be permitted.

John Tattersall,
1 Embankment Place,
London WC2N 6NN, UK



FT Interview · Peter Middleton

Simple management guru

Mr Peter Middleton, now in his third month as head of European operations for Salomon Brothers, looks every inch the investment banker in his bright new braces. Gone is the pullover he habitually wore at Lloyd's of London, where he transformed a conservative management culture and helped pave the way for the insurance market to return to profitability.

Now he confronts the new challenge of boosting the investment bank's position in the highly competitive European market. But his message – delivered in blunt no-nonsense terms – is identical to the one drummed out at Lloyd's on countless occasions.

"Good management is keeping things simple," he reiterates. "It is creating the conditions where people can be successful. You have to eliminate inefficiencies and lost business opportunities."

It is a formula that appears to have had some success at Lloyd's. In 1992, Mr Middleton was brought in to help save the troubled insurance market, then losing nearly £4m a day after heavy claims from a string of catastrophes in the late 1980s.

Although Lloyd's is returning to profit, it is still too early to judge whether the ambitious plan he helped design will clear Lloyd's complex legacy from the past. Later this year, it should be clear whether it has succeeded in settling legal disputes with thousands of loss-making Names (the individuals who have traditionally supplied its capital).

But even before the outcome was clear, Mr Middleton had moved on, joining Salomon Brothers, the US investment bank, in November to run the European end of its rapidly growing international business.

Identified by headhunters as a candidate, Mr Middleton was flown out to New York and introduced to Mr Deryck Maughan, Salomon's chief executive and chairman, with whom he struck up an immediate understanding.

Both men are from the north-east – Mr Maughan from Darlington, Mr Middleton from Middlesbrough – and both received their initial management training in the British Civil Service.

Mr Maughan was in the Treasury for ten years before heading up Salomon's business in Japan. After a more idiosyncratic youth which included a spell as a monk, Mr Middleton joined the diplomatic service, spending time in Dar es Salaam, Jakarta and Paris. As group chief executive at Thomas Cook, the travel agent, between 1987 and 1992, he revived the group's fortunes.

Middleton: found considerable lack of coherence at bank

"It was immediately apparent to both of us within ten minutes of meeting that we were on the same wavelength," Mr Middleton says. "My first reaction was that ... this was exactly the type of job I'd enjoy doing."

When he left Lloyd's, there was criticism over his departure before the end of his contract in September 1997 and before the rescue plan was complete. Mr Middleton replies that once he had decided to go to Salomon's it was better to make the change quickly, rather than remain at Lloyd's during a crucial time for the insurance market.

"It seemed to me and other people there would only be confusion," he says. "There was no way you could keep these things quiet."

At Salomon's, Mr Middleton has joined an organisation which appears to be heading out of the trough into which it plunged in 1991, when details of its manipulation of the US Treasury bond auctions emerged. This led to the imprisonment of its head trader in New York, Mr Paul Mozer, and the departure of three senior figures.

The scandal badly damaged the group worldwide – the British government withdrew the lucrative mandate to organise the sale of its remaining stake in British Telecommunications, for example. The bond market crash of February 1994 also added to its woes, and group losses reached $399m in that year.

Mr Maughan, who took over as acting chief executive after news of the scandal broke, has sought to diversify the bank's activities. Classic merchant banking activities such as corporate finance, equity issuance and fixed income markets advice and marketing have been strengthened. This balances the group's traditional strength in potentially highly profitable but very volatile proprietary trading. Salomon's is now back in the black: group post-tax profits in 1995 were $457m.

Last year Mr Maughan introduced "global product management", organisational changes to give a small group of senior executives greater control over the bank's worldwide activities and products. The change means strengthening co-ordination in regional markets – in Mr Middleton's case, in Europe.

As at Lloyd's, Mr Middleton is now intent on introducing basic management disciplines to a business where they have traditionally been absent. In a bank where traders have frequently filled top management positions, individualism has sometimes ridden roughshod over group interest.

The task is easier at Salomon's, he says. One reason is that the investment bank is less dependent on paperwork than Lloyd's, with its complex relationships between syndicates, agents and Names and a conservative approach to technology.

At Lloyd's, he regularly carried a rucksack stuffed with documents home on his motorcycle. Salomon's is a "different world where information is delivered electronically".

But the basic messages are the same – the overriding importance of communication inside the organisation and with its customers.

"There was a very considerable lack of coherence," says Mr Middleton, recalling his initial impressions at the bank. "In this region and this building there are loads of highly rated people but they are not co-ordinated properly."

One of his first acts was to commission a booklet containing the photographs of all 43 managing directors in Europe – the bank's most senior management grade. "Quite literally people didn't know each other," he says.

And the bank's separate divisions – its corporate finance and fixed income businesses, for example – are under orders to share information about clients more widely within the group.

Last year, Salomon's faced a problem of losing important staff, after the announcement of plans – subsequently shelved – to link the remmuneration of senior executives to the return on capital achieved by the bank's customer-driven businesses. Recently there has been a stream of high profile – and expensive – recruits.

In November, for example, the bank poached Mr John St John, a star equity specialist from Dresdner Kleinwort Benson in London to jointly head its European equity capital markets team. It has also recruited a team of media analysts from Merrill Lynch.

"Eighteen months ago these people wouldn't have joined us," says Mr Middleton. "One of them told me he wouldn't even have answered the telephone call."

Richard Lapper

هكذا من الأصل

PERU

Post-recovery task is to heal divisions

President Fujimori has beaten economic failure and terrorism. But there is still much to do, reports Stephen Fidler, not least in increasing equality and political diversity

Since the start of the decade Peru has been transformed from an economic disaster area into one of Latin America's fastest growing economies. Much of this has been the work of one man, President Alberto Fujimori, elected in 1990 and re-elected overwhelmingly in April of last year for another five-year term.

Opinion polls suggest that Peruvians have recovered from the abject pessimism that pervaded Peru in the 1980s and have become by far the most optimistic population in Latin America. The subduing of terrorism and the stabilisation of the economy has created "a kind of post-war euphoria", says Mr Manuel Torrado, managing director of the Lima-based polling company, Datum International.

According to the pro-democracy think-tank Agenda: Peru, terrorism and the economic crisis turned Peru, in effect, into an archipelago. It comments: "In an already poorly-integrated nation, divisions deepened between the provinces and metropolitan Lima, between the countryside and the city, between shanty towns and suburban neighbourhoods, between regions which could be visited safely and war-torn emergency zones."

Mr Fujimori's policy successes have started the process of knitting these islands together and of reintegrating the country into the world economy.

Since 1990 the government has quelled a terrorist threat that challenged the state's survival. The government estimates its toll over 15 years at 30,000 lives and economic losses of $30bn.

It has also brought government finance under control, strengthening tax collection, cutting spending and eliminating subsidies through privatisation and other measures. It ended indexation of public sector wages, finished with price controls, dismantled the system of multiple exchange rates and introduced tight monetary policy. It opened the economy, with average tariffs falling to 16 per cent in 1994 from 66 per cent in 1990.

The government has won back for Peru the good graces of the international financial system from which it was excluded for almost seven years due to its policy of not paying its debts.

Nonetheless by most measures Peru remains – and will remain after expected debt accords with commercial banks and creditor governments this year – among the most indebted countries in Latin America.

Added to this the country's current account deficit last year approached 8 per cent of gross domestic product, close to the levels in Mexico before last year's financial crisis.

This is being easily financed at present and Peru's foreign exchange reserves have risen to more than $6bn. But in the medium-term Peru remains highly dependent on the Washington-based international financial institutions, whose imprimatur and money is needed for both debt agreements to go ahead.

While a modest deviation from the International Monetary Fund's framework does occasionally take place, as during the government spending spree before last April's presidential elections, the country must quickly return to the fund's line. Discretion over macroeconomic policy, says one Peruvian finance official approvingly, has been almost completely ceded to the IMF.

The result of this has been to bring inflation down to 10.2 per cent last year from 7,650 per cent in 1990. Growth since a recession year in 1992 has been the fastest in Latin America.

Economic stabilisation and pacification has already benefited many people. According to a World Bank report presented to donor countries last October in Paris, a net 857,000 jobs were created in Peru between 1991 and 1994.

Though most of these jobs were apparently in Peru's huge informal sector, consumption by all income groups has increased substantially. For the poorest 20 per cent of the population, it grew by 32 per cent in the four years, compared with the average 29 per cent. Bank officials say an important part of this increase can be attributed to the government's success in controlling terrorism, allowing farmers, for example, to take their produce to market once more.

Yet the report also describes how much ground Peru has to make up. After world-beating growth of 13 per cent in 1994, Peru just managed to claw its way back to the per capita GDP levels of 1965. With 1995's growth at 6.7 per cent, GDP returned to 1968 levels.

Real spending per student in education is just one fifth of what it was in 1970 and an estimated 98 per cent of children do not have school textbooks. Health spending during 1994 amounted to only 1.9 per cent of GDP, $17 for every Peruvian.

Poverty, though reduced, remains widespread. The World Bank estimates some 55 per cent of Peruvians were poor in 1991, a proportion which had fallen only 5 percentage points by 1994.

The bank comments: "The programme of reforms, together with public order, benefited the poor ... However, much of these past improvements are catch-up efforts as the economy has been reoriented to the market and terrorism eliminated. Such dramatic consumption increases will not be easily reproduced in the coming years."

The bank concludes: "The challenge now for Peru is to improve the quality and coverage of education, health and nutrition, especially for the poorest," – and that in the context of continued IMF-inspired budget stringency.

Many businesspeople agree that the government has no time to rest on its laurels. Mr Juan Francisco Raffo, a prominent businessman, says: "Peru is on the right road to achieving development. However we are at a crucial point ... We still require a tremendous number of reforms to achieve the results we have to."

These include, he says, modernisation of the armed forces, a project which may have been put back by the border war last year with Ecuador. He sees failings in infrastructure, in ports, in the postal service and in a corrupt judiciary. The latter is "a liability that's going to cost Peru a tremendous amount of money" by deterring investment, he says.

While the government has declared its intention to move

Continued on page 4

President Fujimori's populist style is based on constant contact with voters. Here, dressed in traditional clothes, he meets Aymara Indians in Pesto Grande, 1,200kms from Lima EPA

IN THIS SURVEY

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■ **Economy:** by Stephen Fidler

Deficit prompts call for reform

Fiscal tightening and efforts to cut the imbalance in trade are aimed at averting a crisis

Peru escaped virtually unscathed from the Mexican financial crisis that exploded in December 1994. But of all the main Latin American economies last year it was Peru whose current account deficit came closest in size to Mexico's before the crash.

Mr Lars Schonander of Barings Securities in Lima says: "I'm worried about the deficit, if for no other reason than there isn't a single potential investor who doesn't ask about it."

Peru recorded a current account deficit – the overall balance of trade, services and financial transfers such as interest and dividends – of \$2.68bn in the first nine months of last year. This is more than double that of the same period in 1994, and suggests a shortfall of about \$3.7bn is likely for the full year.

According to Mr German Suarez, president of Peru's central bank, the 1995 current account deficit reached about 7.5 per cent of GDP. This compares with Mexico's 1994 deficit of 6 per cent.

Mr Suarez is naturally quick to differentiate the Peruvian and Mexican cases, although some of his arguments are similar to those heard in Mexico in 1994.

First, he says, a large proportion of Peruvian imports are capital goods, needed for the manufacture and production of future exports.

According to the figures for the first nine months, 31 per cent of imports were defined as capital goods and a further 42 per cent as intermediate goods. Although Peruvian statistics should be handled with care, there is other evidence to suggest capital goods imports are strong. For example, the newly privatised telephone company invested some \$700m in the first half of last year, while Southern Peru Copper imported \$100m of trucks for its mining operations.

The central bank head also argues that the dependence on short-term capital that finally sunk Mexico is not replicated in Peru. "There is no equivalent of the infamous *tesobonos*," he says, referring to the Mexican government's dollar-linked bonds that helped intensify the crisis.

He adds that of last year's deficit, some two percentage points of GDP were financed by direct investment, including privatisations.

Although privatisations are likely to slow sharply by 1997, other direct investments are set to remain strong. According to a survey by the Apoyo study group, mining sector investments in the next five years could amount to between \$6bn and \$7bn – though some mining companies believe this figure is too optimistic.

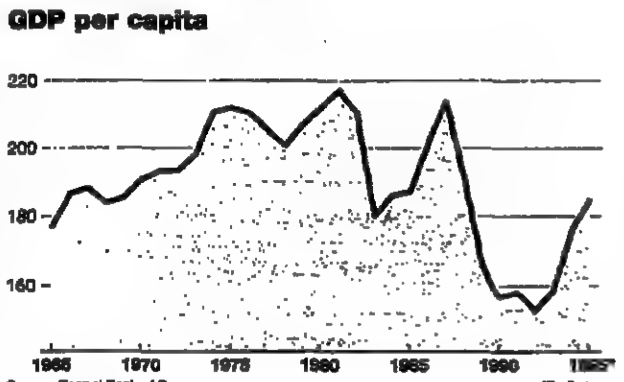
Two percentage points were also covered by refinancing of interest payments – some involuntary through arrears, says Mr Suarez. Long-term capital accounted for 0.3 points, while funds flowing into the country from the illegal coca trade amounted to an estimated \$500m-600m, or another percentage point of GDP. This left about two percentage points financed with short-term capital, much of which was trade finance anyway, according to Mr Suarez.

There are other features that differentiate the two economies. Unlike Mexico's, the Peruvian economy has been growing rapidly, expanding the country's debt-servicing ability.

The Peruvian sol may be overvalued – Mr Suarez says that although there has been a modest 18 per cent real appreciation since the early part of the decade, gains in productivity have been substantial – but it is flexible, not pegged like the Mexican peso was.

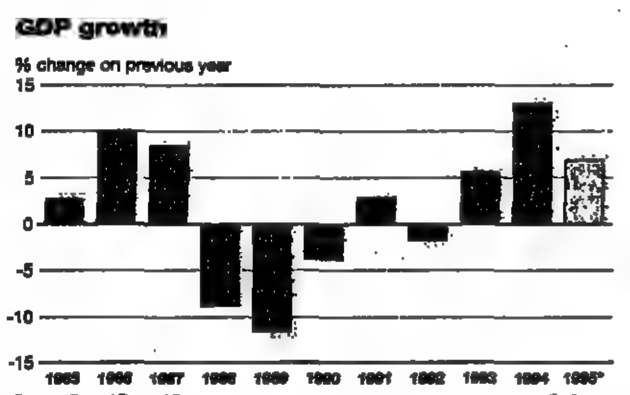
Furthermore he says that, unlike in Mexico, domestic savings are rising along with investment – the current account deficit being the difference between savings and investment. The investment rate has risen since 1990 from 16 per cent of GDP to close to 25 per cent, but, at the same time, the savings rate has grown, increasing from 12.5 per cent in 1992 to 17.4 per cent last year.

GDP per capita



Source: Central Bank of Peru *Preliminary

GDP growth



Source: Central Bank of Peru *Preliminary

The World Bank, however, has a less sanguine view than Mr Suarez. In a report to last October's Consultative Group meeting for Peru in Paris, the bank said: "The current account deficit is a concern because new spending is being largely financed by short-term bank deposits."

The bank goes on to say that short-term capital inflows should decline, reflecting in part the decline in the repatriation of flight capital. "An important part of the past short-term inflow has been shifting deposits held abroad (the Miami deposits) to foreign currency deposits in Peru. Such readjustments cannot proceed on a similar scale for many years."

Some 62 per cent of bank deposits are in dollars, an important part of which are sensitive to interest rate movements in the US.

A further concern is not so much the currency exposure of the banks, which are reasonably well hedged, but that of their corporate customers, who would suffer in the event of a sharp depreciation of the sol. "The potential problem is that a lot of borrowers of dollars are dependent on local currency revenues," says one close observer. "That is not to say we are on the verge of a crisis, but if we continue in this way, we will get there."

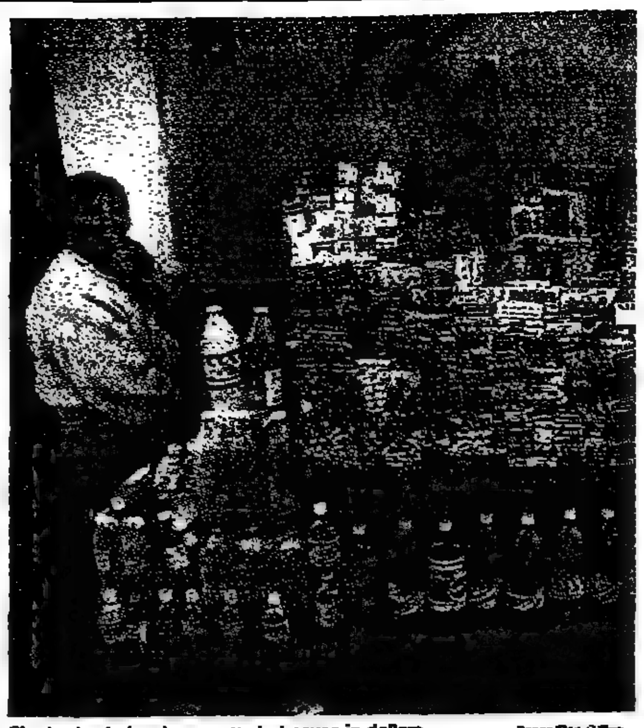
The country also remains one of the most highly indebted in Latin America, even allowing for this year's expected Paris Club Brady debt accords. Based on 1996 estimates, Peru's debt-to-export ratio of 406 per cent compared with Argentina's 345 per cent, Brazil's 262 per cent and Mexico's 171 per cent.

Notwithstanding this, there is one other important factor suggesting the country will not repeat the experience of Mexico – for which 1994 was an election year. The government has been willing to take fiscal and monetary measures to slow the economy in a bid to bring the current account deficit more into line.

It has also taken discretionary measures – such as a ban on the importing of used cars – aimed at least in part at improving the current account. The president, Mr Alberto Fujimori, says he believes this measure alone could slice 5 per cent off the deficit, and suggests some estimates point to even more.

The question is to what extent the import ban forms part of a cohesive government strategy. Many disapprove of the measure. Mr Juan Francisco Raffo, a leading businessman, says it reflects a government prone to arbitrary decision-making. "From my point of view, it is bad philosophy; it sent a bad signal."

Nor is the balance of payments the sole factor behind fiscal tightening. Ahead of last April's elections, the government went on a spending spree. A primary fiscal surplus last year of 0.2 to 0.3 per cent of GDP compared with a 0.5 per cent target set by the International Monetary Fund. In the talks now going on to secure a three-year extended fund facility, the IMF is expected to demand a surplus of at least 1 per cent this year.



She trades in local currency, but saves in dollars Panos/Ron Giling

The tightening has coincided with an economic slowdown that would have happened anyway. Agriculture output was reduced by a delay in rains, while fishing returned to normal levels after an exceptional catch in 1994. Economic performance in the banner year of 1994 – when growth reached 13 per cent – was also lopsided, concentrated in the last months of the year and therefore likely to make the 1995 comparisons weak.

The speed of the slowdown has raised questions about whether the government overshot in its vigour to rein in the economy. Partly as a reflection of this, the central bank has begun to lower its benchmark interest rates once more.

For now the conventional wisdom is that growth will pick up later this year. This, however, will probably not happen before mid-year, leaving some analysts predicting 1996 could be the worst year for growth since 1992's negative 1.8 per cent.

A recent country research report from Barings argues that Peru can grow by 5-6 per cent a year until the end of the decade, with inflation, which fell to just 10.2 per cent last year, in single digits.

Others, though, believe that this will require important structural reform, which does not seem to be high on the government's agenda. On this point, says Mr Augusto Alvarez of the study group, Apoyo, "The government is in neutral." He adds: "Reform of the state is still needed."

Mr Raffo concurs: "We still need a tremendous number of reforms to achieve the results we have to achieve. It's time to move into the next century."

■ **Financial markets:** by Richard Lapper

New deal fuels price rises

The government's faith in the market has given the market faith in the government

It is a measure of Peru's recent economic progress that Mr Jose Carlos Luque, the president of the Lima Stock Exchange, smiles when he recalls "picturesque" battles with the country's past socialist administrations.

During the 1970s and 1980s governments exercised tight control over the exchange, directly appointing its board and restricting the participation of foreign capital. Under President Alberto Fujimori, however, there has been a sharp change of tack. The exchange's 49 members have regained their commercial freedoms and limits on foreign capital have been completely lifted. Abused as a "defender of imperialism" by President Juan Velasco in the early 1970s and an "anarchist" by President Alan Garcia in the late 1980s, Mr Luque's views are now fully in line with Mr Fujimori's crusade for economic liberalisation. And so far, at least, the results of the new approach have been impressive.

Supported by falling inflation, rising economic growth and the growing faith of international financial markets in Mr Fujimori's economic policies, share values have grown sharply. The Lima Stock Exchange's capitalisation rose to \$11.07bn last year, a jump of nearly 37 per cent on 1994, and an increase of more than 1,000 per cent since 1991.

The climb reflected sharp increases in the prices of the market's most widely traded stocks such as Telefonica, the telephone company.

These gains more than offset weaker performances by less liquid shares – the market's general index, which is made up of a basket of some 60 shares, actually declined by 12.12 per cent last year in nominal terms, following returns of between 288 and 52 per cent per year since 1991.

So far this year increased interest from foreign investors has fuelled further price rises with the general index up 12.54 per cent by February 9, and the narrower select index up 18.69 per cent.

The exchange's daily trading volumes have surged. In 1991 an average of 177 deals worth \$2.4m were done each day. Currently an average of 1,809 transactions valued at \$21.1m are transacted daily.

Partly reflecting increased overseas interest, especially from Chilean and Spanish banks and brokers, the price of a stock exchange seat has risen by more than ten times to \$400,000. Mr Luque claims it would be even higher were it not for a government-imposed limit.

Bond issuance has grown in response to two stimuli. The first is falling inflation – prices rose by only 10.23 per cent in 1995, compared to 39.5 per cent in 1993 and 15.38 per cent in 1994. The second is increasing monetary stability. The value of bond trading has moved up from just \$15.6m in 1991 to \$204.02m in 1995.

Taking advantage of the market's buoyancy, the exchange has pushed ahead with an ambitious modernisation plan. Floor trading – which had taken place at the exchange for two hours each day – was scrapped last summer in favour of a new electronic system, developed independently at a cost of about \$1m. The use of independent clearing, settlement and custody facilities has also been extended, with more than 40 per cent of share paper now "dematerialised" – traded according to a system of electronic book entry rather than as physical paper.

Investment bankers, currently flocking to Lima to take advantage of corporate finance and privatisation-linked deals, confirm that the exchange has stolen a march on rivals who were formerly considered to be more developed. "It has become very liquid and efficient," says Mr Pyers Griffith, representative for Deutsche Morgan Grenfell in Lima. "They have leapfrogged some other Latin markets."

Mr Luque accepts that despite this the Peruvian market is still very heavily dependent on foreign capital and that a sudden shift in international sentiment could damage it. Last year foreign holdings registered at the Securities Depository and Settlement House increased from \$1.485bn to \$1.560bn, with the number of individual investors making use of the service more than doubling from 2,643 to 5,451. And although foreign transactions declined marginally in relative terms, they still account for more than 60 per cent of activity.

In this respect, two of Mr Fujimori's reforms – the development of local private pension funds and the privatisation of state holdings are particularly important. Created in 1993, six private funds now hold total assets of more than \$600m, accounting for roughly half of the country's total pension fund assets. No more than 10 per cent is currently invested in equities, compared with a legal maximum of 30 per cent. But this proportion is expected to increase as a result of administrative changes in 1995.

> The price of a stock exchange seat has risen more than ten times

The law allows Peruvians to place contributions either with the state scheme or with private sector providers. Last year the level of compulsory contributions to the state scheme was increased, reducing its attractions compared with private funds. As a result new affiliates to the private schemes have risen from around 4,000 a month early last year to some 40,000 a month since July 1995.

Mr Alex Zimmermann, an investment manager at AFP La Union, estimates that total flows into the funds are now running at \$25m per month. He forecasts that the total size of funds under management will rise to \$934m by the end of this year and to \$3.318bn by the end of the century.

"This is supplying savings which otherwise would not exist," says Mr Zimmermann. "The presence of pension funds in the financial system is very important, particularly as a source of demand for fixed-interest paper."

Peru's privatisation programme is also designed to help growth in the savings rate and foster a local equity culture. The most significant development here is the beginning of the second phase of a programme to sell off shares in large, strategically-important companies in the utilities, oil and mining sectors. Earlier this year the government appointed JP Morgan, Merrill Lynch and a local institution, Banco del Credito, to handle the sale of the government's remaining 29 per cent stake in Telefonica, its telephone company.

In 1994 a 35 per cent stake in the business was sold to Spain's Telefonica for a sum of just over \$2bn. Final details have still to be decided but the government is likely to seek at least \$250m – about a sixth of the total of the some \$1.5bn which it is seeking – from local investors. A significant block of shares will be made available to small retail investors at a discount and on relatively soft credit terms, in an exercise which will mark one of Latin America's most far-reaching experiments in popular capitalism.

The sale last year of a tranche of shares in the state-owned Cementos Norte Pacasmayo served as a pilot scheme for the government-appointed Citizens Participation Committee, while the flotation of shares in two electricity distributors later this year, will provide other opportunities to extend the concept.

Mr David Beresford-Jones, who is assistant director at Deutsche Morgan Grenfell in Lima, says: "The policy objective is clear . . . developing ownership of assets by Peruvian individuals rather than simply by international corporates is essential to the long-term political sustenance of free-market economics and private ownership."

■ **Privatisations:** by Stephen Fidler

Target is $1bn in 1996

The government is refusing to let political opposition derail its disposals programme

The Peruvian government has raised more than $5bn through privatisations, concessions and capital boosting exercises since its privatisation programme's first modest beginnings in 1991.

Yet early this year the effort seemed in danger of stalling as resistance to further sell-offs crystallised around the proposed sale of Petroperu, the state oil company. The political opposition combined with petroleum workers and others to protest against the sale.

Opinion polls suggest, says Mr Augusto Alvarez of the Apoyo polling company, that public disapproval of the sale outweighs approval. This is despite polls carried out last year by the same organisation, as part of the Latinobarometro monitoring of Latin American public opinion, suggesting Peruvians are more in favour of private enterprise than the population of any other large Latin American country.

Some 28 per cent supported an economy of private enterprise without any state intervention. A further 37 per cent supported some socio-economic intervention by the state. Another 15 per cent backed private enterprise with workers involved in important decisions. But at the same time, 67 per cent of Peruvians believed the oil sector should remain in the hands of the state.

Important segments of the armed forces were also said to oppose the sale, ostensibly because of the national security impact of handing over important assets like refineries to foreign companies so soon after last year's border conflict with Ecuador.

Yet after taking account of some of these concerns, the government seems determined to move ahead. In an interview last month, President Alberto Fujimori said it would take "a few weeks more" before people understood why privatisation was necessary.

He argued the protests had been politically motivated. Although the concerns of workers were understandable, each one made redundant in "rationalising" Petroperu had received at least $24,000 in compensation. Furthermore he claimed that national security was endangered most of all by the losses and liabilities built up by state-owned companies.

This latter theme was reiterated by Mr Dante Cordova, the minister in charge of privatisation, speaking to Congress last month. The losses of state-owned businesses in the 1989-1990 fiscal year reached $4.2bn, enough to asphalt 42,000kms of roads or build 14,000 schools with 12 classrooms each, he explained.

He said the privatisation of Petroperu would provide incentives for investment in the energy sector, and cover the country's growing deficit in hydrocarbons. It would generate competition, improve management and boost taxes.

Mr Cordova also attempted to address national security concerns. He said oilfields would not be sold but licensed, and the country's important northern oil pipeline would be operated under a concession. The state would retain golden shares in the Talara and La Pampilla refineries and a say in the transfer to third parties of other important assets.

It is unclear whether this will be enough to satisfy the military. But the opposition of the latter appears unlikely to halt the sell-off. "If Fujimori insists on privatisation, then the government will privatise, but it will cause some bitterness in the armed forces," says Mr Enrique Obando, an expert on military affairs.

Mass market: the government has plans to make more ordinary citizens into shareholders

He also notes concern in both Chile and Peru about the important role Chilean companies are playing, particularly in electricity generation in Peru.

The government revenue implications of the sales planned for this year are significant. There should be few concerns about financing the country's current account deficit, at least for 1995. After this the privatisation programme will tail off significantly.

"Between privatisation and the citizen participation programme, the government could garner in excess of $2.5bn in 1996," says Mr Lars Schonander of Baring Securities in Lima. The 1996 budget assumes at least $1bn of privatisation revenues.

According to the Commission for the Promotion of Private Investment (Copri), this would compare with revenues of $2.6m in 1991, $207.5m in 1992, $316.7m in 1993, $2.62bn in 1994, when a majority of the state telephone company was successfully sold to a group led by Telefonica of Spain, and $1.06bn last year. A total of 79 privatisations raised $4.24bn in these five years, with further investment in the privatised concerns projected at $3.63bn. An additional $112.9m was raised through concessions carrying $518.5m in projected investments, bringing the total from new capital-raising exercises past $5bn.

The list of disposals planned for this year is extensive. The first operating unit of Petroperu, Petrolube, is likely to go up for sale later this month. In April the government will make another effort to sell parts of Centromin, the state mining company, some of whose subsidiaries have severe environmental problems. Last month it sold Siderperu, the steel maker, for $193m to a group comprising Acerco, a subsidiary of the US company GS Industries, Banco Wiese and Stanton Capital, a financial company backed mainly by US investors.

The government is expected to launch its citizen participation programme during 1996 with the sale of at least part of its remaining 29.5 per cent stake in Telefonica del Peru, which is currently worth about $1.5bn. It is likely to follow this by selling stakes in Banco Continental, which was partially privatised last year, and the electrical utilities.

It is probable that these privatisations will consist of offerings launched simultaneously in the international and domestic markets, with some incentives for small investors.

The citizen participation programme will draw on lessons learnt from a small pilot offering of shares in the cement company Cementos Norte Pacasmayo in 1994, where a surprisingly large proportion of the shares on offer were bought by members of lower-income groups.

The government aims to raise the number of individual shareholders to 400,000 by the year 2000 from 60,000 now.

■ **Banking:** by Richard Lapper

Battle for hearts and wallets

Local banks are fighting for survival as contact with foreign banks and markets grows

The battle for control of Peru's rapidly growing banking market is nowhere more evident than on the streets of Miraflores, Lima's best-known middle class suburb.

On Avenida Larco, Peru's third biggest bank, Continental, which is now controlled by Spain's Banco Bilbao Vizcaya (BBV), is seeking to tempt savers to invest in its new "super deposits", 90-day interest-bearing accounts. The incentive is participation in a lottery in which the bank every month raffles two Volvo saloon cars, five holidays in the Caribbean, and 120 refrigerators.

A block further north branches subsidiaries of Banco Santander, BBV's big Spanish rival, which last year took over Banco Interandino and Banco Mercantil, are also trying to woo new customers. Santander, is offering airmiles, still a relative novelty in Peru, to new credit card customers.

And a couple of blocks further on, Banco Solventa, one of two Chilean finance companies pursuing a slice of the growing consumer loans business, proclaims that it is the bank "that serves people".

The banks represented in Miraflores are not the only foreign-owned institutions battling with domestic giants like Banco de Credito and Banco Wiese for a chunk of one of Latin America's fastest-growing and most profitable banking markets. Banque Sudameris, a subsidiary of Banca Commerciale Italiana, has bought Banco de Lima, the country's sixth largest bank. Chile's Banco O'Higgins and Spain's Banco Central Hispano combined earlier this year to take over Banco del Sur. And in 1994 international investors joined with the former Peruvian finance minister, Mr Carlos Rodriguez-Pastor, to buy Interbanc from the Peruvian government.

Foreign interest in Peruvian banking is underpinned by the transformation in Peru's economic outlook since the election of President Alberto Fujimori in 1990. The introduction of liberal economic policies and a tough and largely successful counter-inflationary strategy has restored the faith of Peruvians in the banking system, prompting a speedy growth of bank deposits. Deposits have risen from the equivalent of 4 per cent of gross domestic product in 1990 to 18 per cent in 1995 and the scope for further rises is considerable. The deposits to GDP ratio is still well short of the Latin American average of 30 per cent.

A series of liberalisations have spurred competition and increased efficiency. These have included the removal of limits on interest rates; the elimination of restrictions on foreign capital; the closure or sale of five state-owned development banks; and the privatisation of two banks, Continental and Interbanc. Productivity gains, linked especially to job losses at former state-owned institutions, have been impressive, with deposits per employee rising from $40,000 in 1990 to $450,000 in 1995.

Total market share (loans and deposits) of the top five banks

Bank name	Deposits	Loans
Crédito	27.6	26.5
Wiese	21.6	20.2
Continental	15.3	13.2
Interbanc	7.7	8.7
Latino	5.3	5.5

Note: year to September 1995. Source: Banking and Insurance Superintendency

"In the past three to four years the nature of our business has been changing dramatically," says Mr Raimundo Morales, chief executive of Banco de Credito, Peru's biggest bank. "In the past there was no competition and lending was concentrated in the corporate sector."

Mr Juan Jose Marthans, director of economics at the University of Lima, says: "There has been a 180 degree change."

Banking is now a highly profitable business. Mr Marthans says that larger banks can comfortably achieve an annual return on their capital of up to 25 per cent. In the first 11 months of 1995 Peru's 23 banks increased profits by an average of 122 per cent. By international standards margins are exceptionally high. Banks may pay their depositors 15 per cent interest on local currency deposits, but average loan rates even for business customers are currently around 33 to 34 per cent a year. And that is despite a fall in lending rates in recent months.

For hard-pressed consumers wanting to borrow money to buy a washing machine or refrigerator, interest charges can easily amount to 100 per cent a year. Margins in dollars, which account for about two thirds of the system's borrowing and lending activities, are also high, with an average deposit rate of 6.26 per cent comparing with an average lending rate of 17.21 per cent in early February.

It seems certain that these high margins will come under pressure. The capacity of bigger banks to reduce margins further is bound to increase as soon as they regain greater access to international markets, a development which seems likely to follow the completion of Peru's debt rescheduling with the Paris Club and the finalisation of its Brady deal with commercial creditors later this year.

Already a number of banks are reported to be considering international issues to reduce their funding costs, possibly through offshore vehicles. Currently banks must set aside provisions of 45 per cent against dollar obligations, a reserving level which applies in the case of bond issues if the size of the issue amounts to more than 30 per cent of its capital and reserves or if the maturity is less than a year. But according to bankers in Lima loans contracted through offshore agreements may be free from this provisioning requirement.

Peru's return to the capital markets will expose the local banking sector to competition from big international banks who will seek to win the best local corporate customers by offering competitive international rates. Peru's bigger companies may be tempted to access international bond markets directly, which in turn will lead to further pressure on commercial lending margins.

Bankers' mettle is likely to be tested later this year by an increase in defaults by borrowers, as a result of an expected slowdown in the economy after rapid growth over the past three years. The problem is complicated by the extent to which credit expansion has overtaken growth in the real economy, with the volume of bank loans rising by 38 per cent last year.

The banking system is dominated by transactions in dollars. Last year's expansion of credit was made possible at least in part by a sharp rise in short term borrowing. Recent figures show that non-performing loans or bad debts have fallen as a percentage of the system's loan portfolio, dropping to an average of 4.81 per cent by the end of 1995. Average non-performing loans amounted to 7 per cent at the end of 1994. Bankers expect this ratio to rise in the coming months. Mr Morales at Credito predicts an increase to between 6.5 and 7 per cent by the end of this year.

> Already several banks are reported to be considering international issues to reduce funding costs

All in all current trends seem likely to further accelerate consolidation. The leading four banks – Credito, Wiese, Continental and Interbanc – increased their share of total deposits from 50 per cent to 73 per cent between 1990 and 1995 and their slice of credits from 42 per cent to 70 per cent over the same period.

Mr Juan Francisco Raffo, president of the construction group Los Portales, and a big shareholder in Banco de Credito, accurately reflects opinion in Lima business circles when he predicts a "big and costly war which will be especially serious for the smaller banks".

■ **Debt:** by Richard Lapper

So much owed to so many

The country's past failure to service its debt has marred its relationship with creditors

Peruvian negotiators face a gruelling task as they seek to complete a comprehensive rescheduling of the country's debt before the end of the year. The rescheduling, which will include a new accord with the Paris Club of official creditors and a Brady deal with commercial banks, would mark the conclusion of one of the most complicated chapters of the Latin American debt crisis. And it will raise the prospect of a return by both the government and private sector borrowers to international capital markets.

Peru's debt negotiations have been especially complex. The country was one of the first in Latin America to become heavily indebted to international creditors. It first rescheduled its payments at the end of the 1960s, more than a decade before the Mexican and Brazilian crises.

Subsequently the country became a heavy borrower of bilateral government credits, both from the Paris Club of OECD governments and from east European governments, from which it contracted loans which it used for arms purchases.

For most borrowers, Paris Club debts, which amounted to more than 40 per cent of total indebtedness by mid-1995, are more difficult to reschedule than those owed to commercial creditors.

Peru's difficulties were compounded in 1985 by the decision of President Alan Garcia to limit debt service payments to no more than 10 per cent of export earnings. This brought Peru into default with both the IMF and World Bank and cut the country off from international creditors for much of the decade.

Matters were made even worse by a series of legal disputes with some creditors. "It is one of the most difficult debts in Latin America," says Ms Silvia Charpentier, an economist based in Lima who negotiated Costa Rica's debt in the late 1980s. "There are many creditors and the debt service is large as a percentage of export earnings."

Peru's total debt of some $30bn now amounts to more than 4 times its annual exports of goods and services, compared to ratios of nearly 3.5 times for Argentina, just over 2.5 times for Brazil and more than 1.5 times for Mexico. In 1993 debt service payments amounted to 63.7 per cent of export earnings, compared to 47.6 per cent for Argentina and less than 30 per cent for Brazil, Mexico and Venezuela.

President Alberto Fujimori's economic team have done much to restructure the debt. Peru has cleared arrears with both the World Bank and the IMF, has met the terms of successive IMF agreements and successfully rescheduled its debts to the Paris Club in 1991 and again in 1993. Separately, Peru has been forgiven either part or all of debts owed to six government creditors – the UK, Netherlands, Germany, Finland, Switzerland, and Canada – following individual bilateral agreements. These deals cover some $375m in debt by face value, less than 1 per cent of the country's overall debt.

Last October an agreement in principle was reached with commercial creditors to convert some $10bn of commercial bank debt, including more than $5bn in overdue interest, into Brady bonds. This has reduced annual commercial debt service obligations from about $650m to between $300m and $350m.

The deal negotiated with a bank advisory committee, headed by Citibank, provides creditors with four options. Peru will issue three types of Brady bonds: 30-year par bonds paying a market rate of interest in exchange for debt at 55 per cent of face value; discount bonds paying a reduced rate of interest of between 3 and 5 per cent swapped for debt at full face value; and 20-year bonds paying a fixed rate of return for 10 years and floating rate for a further 10 years.

In addition Peru is also offering its creditors a buy-back option, details of which of still not been disclosed. This should allow Peru to directly liquidate up to $1.4bn in debt which it is believed to have indirectly acquired on the secondary market during 1994 and 1995, at a cost estimated at around $600m.

All of these arrangements still have to be finalised, mainly because of difficulties linked to the Paris Club debt. Paris Club conventions limit the amount of debt Peru can reschedule.

The government has been unable, for example, to reschedule debt contracted after its first rescheduling agreement in 1983 – some $6.8bn of the total of $9bn. Even then Peru has to have an IMF agreement in place before it can reschedule with the scope limited to payments falling due within the period covered by the fund deal.

Peru's last Paris Club agreement expires in March and the country must negotiate another – reducing its official debt service obligations from more than $1bn a year to some $380m-$450m – in the next few months. An IMF team visited Lima to begin negotiations for a new extended fund facility in mid-February. In turn commercial bank creditors will wait until multilaterals have sent them so-called "comfort letters" and the Paris club deal is signed before issuing a term sheet.

A US investment bank, understood to be JP Morgan, has been appointed as closing agent for the transaction, but a final deal is not expected until the second half of the year. Even when it has been completed, Peru still faces a heavy burden. According to figures published recently in the Peruvian press, even excluding commercial debt, annual debt service charges would still amount to $1.16bn in 1996, and average just over $1bn in 1997 and 1998.

Another Paris Club deal will be needed in 1999, when annual payments are scheduled to rise to $1.45bn, of which $833.7m will be owed to the club. Analysts such as Ms Charpentier believe that Peru needs to seek more thoroughgoing debt forgiveness, including measures to reduce the stock of debt as well as the debt service burden.

Indeed negotiators are understood to be seeking to persuade creditors to accept the future possibility of limiting Paris Club payments to no more than 0.9 per cent of GDP. Peru's relatively high per capita income excludes it from debt forgiveness terms offered last year by the Paris Club to countries such as Albania and Nicaragua under the so-called Naples terms.

Welding over the cracks: Peruvian industry's vigour gives rise to optimism on debt repayment

■ **The president:** by Stephen Fidler

Restless ruler dominates land

Alberto Fujimori travels constantly while maintaining tight control of government

The personality of President Alberto Fujimori dominates Peru. "You start off talking about Peru and you finish up talking about Fujimori," says Mr Francisco Sagasti, a political analyst.

The former agricultural engineer and university rector emerged from obscurity to win the 1990 presidential election. He changed the constitution so he could *serve a second term*. Many Peruvians believe he has his sights set on a third term from the year 2000.

Mr Fujimori's style of government is highly personal. He has defeated most of the traditional alternative power bases in the country, except for the still-influential armed forces. Congress, which Mr Fujimori closed *in* 1992 *and reopened* under international pressure, is obedient to him; his cabinet is largely subservient. Political parties are in retreat; the judiciary corrupt and discredited; and the church is frequently under presidential attack.

Mr Fujimori relies on a small, secretive group of advisers, including his brother, *Santiago, and Mr Vladimiro* Montesinos, the little-seen security chief who appears to be behind the president's sure grip over the armed forces.

Peru is experiencing all the trappings of the modern phenomenon of "direct democracy". Mr Fujimori consults opinion polls and holds "focus group" meetings. He spends most of his time "pressing the flesh", flying with television crews from one end of Peru to the other on the Boeing 737-500 jet purchased last year by the *government "in cash", according* to the president.

"He loves cutting ribbons," says one observer. Mr Manuel Torrado, a pollster in Lima, adds: "It's as if he's running a permanent election campaign."

In an interview last month, Mr Fujimori said: "I travel nearly every day. Two days ago, I was in three remote vil*lages. I left three ministers* charged with a key task that should result in resolving an important problem. Yesterday, I was inaugurating schools. Today, I'm off to Puno to see tourism developments in the Uros islands.

"Why? Because there is still a bureaucracy, and age-old problems are still unresolved. *When I tell a public official to* build me an irrigation channel in Caracoto, he asks me where Caracoto is. This channel would resolve the problem of irrigation and drinking water of the town for probably no more than 250,000 soles. It's the key objective for Caracoto.

"Later I found machinery, turbines that had been in their boxes for years. Not even the ministry knew where they were. There were no statistics and nobody listened to the people. If this is a political campaign, they can call it what they like. But I resolve Peru's problems – *that's what interests me.*"

The president during last year's border conflict with Ecuador — Reuter

This raises the question of whether such micromanagement can really solve Peru's multitude of problems. Mr Fujimori argues: "I'm constructing models to solve them. I'm not going to be in 1,800 villages to see the condition of the roads, but in five. But the model is in place."

There is, however, a concern – now increasingly evident among businessmen and bankers as well as those who fear Peruvian democracy is under threat – that too much depends on the president. They worry about his populism and wonder who is managing the shop in Lima as he shakes hands the length and breadth of the country.

Mr Fujimori speaks of the state as regulating rather than intervening in the market, but critics say when he speaks of the state he means himself. In a state without effective checks and balances, there is nobody to gainsay Mr Fujimori's sometimes arbitrary decisions.

Vote power: the president visits hydroelectric workers during last year's election campaign — Oscar Paredes/Reuter

In delivering a lower-than-expected, unsolicited rating of Peru's foreign debt last month, the US rating agency Moody's argued: "On the political side, the main weakness at the moment is the concentration of power in the hands of the president, raising questions about the sustainability of policies in the event of a transition."

Mr Fujimori says that, in fact, he is "training managers", in the ministries and in the regions. He comments: "This is what Peru lacks: managers who know how to handle scarce resources."

He says Congress – reformed under the 1993 constitution as a single chamber parliament – is stronger and more efficient, taking for the most part technical rather than political decisions. Political parties have "disappeared from the land". Most members of Apra, the longest-established party in Peru, "support the government", he adds.

If an election were held tomorrow, Mr Fujimori would probably win by a landslide. He regularly polls a popularity rating above 70 per cent – though last month his approval rating dropped to just above 60 per cent.

The polls reveal a potential problem for him: *Peruvians'* extraordinarily high economic expectations. According to Datum, 66 per cent of Peruvians questioned in July believed their economic lot would improve in the next five years.

Mr Fujimori's enduring popularity may not be surprising given his success in bringing internal peace to the country and sharply reducing inflation after the ravages of the 1980s.

This however may not be enough to ensure that the economy will grow rapidly until the end of the century. If it does not, there is nobody around but Mr Fujimori to take the blame.

Stability of country is 'brittle'

Continued from page 1

ahead with further privatisation, there are questions about whether it will be able to sustain the reform effort.

This is in part because of political weakness. The US rating agency Moody's expressed concern last month about "the concentration of power in the hands of the president, raising questions about the sustainability of policies in the event of a transition".

Apart from the president and the military high command, with which he has forged an alliance of convenience, there are few power bases in Peru. Mr Fujimori closed Congress and the judiciary in 1992, then, *after international protest,* brought in a new constitution that refashioned Congress as a single chamber assembly much *more under his control.*

Political parties, says the president, "have disappeared from the land". And with the judiciary discredited, the union movement almost defunct and autonomous regional and local authorities entirely absent, there are few checks on the executive.

The president spends most of *his time travelling* from one end of the country to the other, as if, in the words of Mr Torrado of Datum International, he were on "a permanent campaign". He monitors public views through opinion polls and convenes "focus groups" to discuss the effect of policy on public opinion.

"European style democracy is dying," says Mr Torrado. "It's being replaced by a more direct democracy."

According to Mr Francisco Sagasti, a political scientist in *Lima, this institutional vac*uum means that the stability that Peru currently enjoys is "brittle".

The brittleness was reinforced by last year's border war with Ecuador which remains unsettled and which many Peruvians think is likely to flare up again. It is complicated by Peru's role as the largest world producer of coca, the raw material that produces cocaine, on which up to 1m Peruvians depend, directly or indirectly, for their living.

> The problem, say his critics, is that when Mr Fujimori speaks about the state, he means himself

Mr Fujimori denies he is interested in popularity, but his populist approach seems to many observers to have *become more, rather than less,* emphatic. Measures such as the ban this year on imports of used cars, which he justified by the need to protect consumers and by the expectation it could bring down the current account, suggest to some a government ready to take arbitrary measures.

Representatives of some mining companies – who could invest up to $6bn-7bn in Peru over the next five to six years, according to projections by the Apoyo study group – complain about the absence of clear operating rules, saying this will deter investors.

"The state," said Mr Fujimori in an interview last month, "is the regulator of the market not its controller. I'm a defender of the free market, but the state has to act from time to time." The problem, say his critics, is that when Mr *Fujimori speaks about the* state, he means himself.

PROFILE **Fujimori's opponents**

Pity the politician

The dismal performance of political parties such as Mr Alan Garcia's Apra in the 1980s and their subsequent *failure to modernise have* ensured that "politician" is today one of Peru's dirtiest words. The older-established parties, Accion Popular, Apra, PPC and the leftist coalition Izquierda Unida together mustered only 17 seats in the 120-member congress elected in April 1995.

New electoral legislation pushed through by Mr Fujimori's obedient parliamentary majority requires any movement which failed to obtain 5 per cent of *the popular vote in 1995 to* re-register: for this, at least 400,000 signatures are needed. Accion Popular is the only opposition party to have *achieved this.* Meanwhile, "Most of Apra support the government," claims Mr Fujimori.

While Peruvian voters still *prefer the self-styled* "independent", there have been hints of a crack in Mr Fujimori's monopoly. In November's municipal elections, Lima voters spurned government-backed candidates.

Some political analysts see Mr Alberto Andrade, now mayor of Lima, as the first *genuine potential challenger* to Mr Fujimori.

"President Fujimori is accustomed to confronting quixotic idealists," says *Datum's Mr Manuel Torrado.* "But Andrade speaks the same language."

Mr Andrade, though far from being an opponent of government policies, faces a tough few years. His authority is challenged and his budget undercut by Mr Jaime Yoshiyama, who Mr Fujimori has appointed to head the powerful ministry of the presidency.

"Mr Fujimori permits no power for anyone who does not absolutely support him," *says Mr Sagasti. He adds:*

Alan Garcia: the former president left behind a legacy of distrust

"Independence is not tolerated – and that creates a vacuum."

Sally Bowen

■ **Terrorism:** by Simon Strong

Shining Path peters out

A fierce military response and the capture of the key leader has crushed resistance

After logging on to the Internet a series of keystrokes brings up a startling red page headed by a picture of smiling peasants and workers over which appears the words "Revolution is the Solution".

Below, under the headline "Support the People's War in Peru!", this paragraph appears: "In October of 1992, Chairman Gonzalo – leader of the Maoist party in Peru – was sentenced to life imprisonment by hooded military judges of the US-backed regime."

Nearly three and a half years after Abimael Guzman – the real name of "Chairman Gonzalo" – was captured in Lima, the communist party he led, better known as *Sendero Luminoso* or Shining Path, appears to be militarily and politically defeated.

Only about 500 guerrillas are believed to be left, mainly in remote areas of the Andes and upper reaches of the jungle – in the department of La Libertad, the valley of the River Ene and especially the upper Huallaga Valley, an important coca growing zone. However these guerrillas are reported to belong not to the faction of Guzman, but to that of Oscar Ramirez, alias Feliciano.

In September 1993 Guzman was shown on video apparently appealing from his jail cell for a peace agreement with President Alberto Fujimori, whom he praised generously, if unconvincingly. The about-turn was such that many believed it was a trick – either by him or by the government.

Yet most Peruvian analysts believe the co-operation of Guzman and his senior comrades in persuading many to give up the armed struggle has since demonstrated that the appeal – so far as it went – was for real.

Mr Guzman's uncharacteristic call for peace followed 13 years of guerrilla war in which about 30,000 people were killed. Shining Path embarked in 1980 on a marathon of destruction. Peasants were massacred as well as civilian authorities, police and soldiers. Leading politicians and generals were assassinated. Factories, roads, bridges, electricity pylons and railway lines were blown up. Vast swathes of the Andes came under the rebels' control.

By mid-1992, Shining Path's impact combined with a quarter of a century of incompetent government had pushed Peru close to social, economic and political collapse.

The country was pulled back from the brink by the appearance of Mr Fujimori. His transformation of the economy killed hyperinflation. His brutal counter-terrorism tactics and repentance laws, which encouraged guerrillas to surrender and give information, turned the tide against Shining Path – at least, once Guzman was caught. There was also an improvement in the operations of the anti-terrorist police.

It was not simply that without Guzman a very vertically structured movement had lost its head. Without him it had lost its fire, mystery and magic at a time when Mr Fujimori was inspiring support in the typical autocratic manner of a a traditional Peruvian *caudillo* leader. People were also tired of Shining Path's extraordinary violence – and the human rights abuses committed by the army in response.

"Guzman wanted to save the party from being massacred," says Mr Enrique Obando, a military analyst. "So his group is playing for the long term. It will reconstruct itself and reappear, but it will have no support. And Feliciano's group will be defeated."

The number of political killings in Peru dropped to about 520 in 1995 according to Aprodeh, a human rights group. This was only a fifth of the level when Mr Fujimori was elected in 1990. Most of the victims last year died in rural clashes between the guerrillas and the security forces.

Although political violence has died away in Lima, community leaders associated with Shining Path are quite often at the forefront of the struggle for water, sewerage and electricity in its shanty towns. In some rural areas, meanwhile, former guerrillas are reported to be turning to banditry.

In spite of Mr Fujimori's victories over the guerrillas – the Cuban-inspired Movimiento Revolucionario Tupac Maru (MRTA) is written off as a serious threat – concerns remain that the roots of the violence have not been dealt with.

Mr Cesar Rodriguez, the author of a book on the subject, *La Violencia de las Horas*, says: "It is necessary to distinguish between the defeat of subversion, and pacification. Partial modernisation has enriched a small sector and more gravely impoverished a much bigger one.

"At a social, ethnic and psychological level, the situation is, if anything worse. The problem of racism is still taboo and for every one success story in the informal sector, there are 100 cases of failure."

With a submissive Congress, docile judiciary and expertly stage-managed media – and 15 provinces in the central and south-eastern Andes still under military rule – power is dangerously centralised in Lima.

Were Mr Fujimori's popularity ratings to drop seriously – from recent heights of about 70 per cent they fell around 10 points in Lima between December and February to 60 per cent – such discontent might blow new life into Shining Path. His stock is already lower in the rural areas. However, for the moment, the Maoists are more intent on pursuing internecine squabbles on the Internet.

Rebel leader Abimael Guzman was held in a cage after his capture AP

■ **The armed forces:** by Sally Bowen

Cosy accord feels the chill

Army concerns over privatisations and spending are souring relations with government

When President Fujimori is on one of his frequent visits to Peru's remoter provinces, his right-hand men are often soldiers. He reviews local regiments at touch-down and take-off, flies in military helicopters, personally supervises army engineers and often lunches with the regional commanding officer. Cabinet ministers accompanying the president fade into the background.

With no organised party base, and no apparent interest in creating one, Mr Fujimori forged close links with Peru's traditionally powerful armed forces even before assuming office in 1990. The military high command – particularly the land army – strongly supported his 1992 coup, when he closed Congress and suspended the judiciary. He subsequently won the admiration of the officer corps for his decisiveness in dealing with the twin guerrilla movements and with last year's Ecuadorean conflict.

Mr Fujimori has consistently protected the military from international and domestic attack over human rights violations. A controversial amnesty law which slipped through Congress in June last year ensures the military cannot face charges for abuses carried out during the protracted counter-subversive war.

Yet it would be "totally simplistic to consider Fujimori a puppet of the military: he has real decision-making power," says Mr Diego Garcia-Sayan, executive director of the Andean Commission of Jurists. "But the armed forces are now the only organised 'party' at national level and cannot be disregarded."

Western diplomats tend to share Mr Fujimori's own view, as expressed in an interview with the Financial Times last month, that "in no other country in Latin America does a president have such control over the armed forces as I."

That control has been achieved in several ways. First, before his 1992 palace coup, Mr Fujimori sharply altered the long-established promotion system in the armed forces. Many of the ablest have been "invited to retire". Only the most unquestioningly loyal – some would say subservient – remain, notably the head of the joint command, General Nicolas Hermoza, who is entering his fifth year as Mr Fujimori's most public right-hand man.

The national intelligence service (SIN), has been restructured and much expanded under Mr Fujimori. Its unofficial head is Mr Vladimiro Montesinos, the army captain-turned-lawyer who is the president's most important yet least visible adviser.

SIN reports directly to Mr Fujimori and runs an efficient information-gathering service nationally while acting as an early-warning system of possible military discontent.

Mr Fujimori has also involved the military in his idiosyncratic rural development campaign. "They shouldn't sit in their barracks or on Peru's frontiers," he says. "They're an important factor in the fight against poverty."

The rank and file spend a good part of their time building roads, supplementing air services to remote areas, providing basic health services, handing out emergency food rations or even giving haircuts to poor children in shanty towns. Opinion polls indicate this has enhanced their popularity ratings.

But the armed forces also wield direct power in many of Peru's remoter regions. Even though the countryside has been largely pacified since 1992, almost a quarter of the national territory remains under direct, emergency military control. This means certain constitutional guarantees are suspended, while the presence of all-powerful military chiefs also pre-empts the development of effective, decentralised civilian government.

The military and President Fujimori take the same dim view of politicians. "The military believe that all Peru's national disgraces have occurred under civilian rule," says Mr Francisco Sagasti a political analyst in Lima. "They distrust local government as inefficient and corrupt: here their views coincide absolutely with Mr Fujimori's."

Until recently the government turned a blind eye to the involvement of the armed forces in the illegal coca trade: the few officers brought to trial on drugs-trafficking charges are at most removed from active duty. They are rarely punished in any other way.

In late December Mr Fujimori announced that the armed forces would be pulled out of the counter-narcotics effort. "Corruption had reached such high levels it could no longer be tolerated," says military analyst Mr Enrique Obando. "It was adversely affecting Peru's credibility vis-a-vis Ecuador at a very sensitive time."

Currently there appear to be two causes of military discontent. First, the armed forces oppose privatisation of "strategic" national assets, notably the oil industry (Petroperu), the ports and the electricity generating sector. This is unlikely to lead to action, in Mr Obando's view.

"The weapons issue is thornier," he says. "Mr Fujimori believes spending on conventional arms is wasteful: until last year, he prevailed."

The February 1995 border conflict with Ecuador, in which several dozen died on each side, changed all that; Peru's military now see conventional war as "perfectly possible". Influential retired army general Mr Mercado Jarrain has called publicly for Peru to modernise, with an emphasis on upgrading the air force. But so far demands for spending on high-technology equipment to match Ecuador's have fallen on deaf ears.

Underlining the internal dispute over re-arming, two months ago defence minister General Victor Malca – a senior cabinet minister since the early days of the first Fujimori administration – was unceremoniously removed from office. He had reportedly been pressing for purchases of Russian equipment, to the disgust of air force chiefs who want US aircraft.

Spending curbs are causing bitterness in the armed forces. "President Fujimori needs them politically; in practice, he's disarming them," says Mr Obando. "If he goes on refusing their demands, there could be problems."

Peruvian soldiers board boats to take them to the front line during last year's dispute with Ecuador Reuter

■ **Development:** by Richard Bauer

Deep poverty in 'real Peru'

The Lima bureaucracy is obstructing efforts to tackle rural poverty

Mr Santos Lopez, a young farmer in the Andean hamlet of Tangalbamba, is self-sufficient for most of his needs. He dresses in trousers and a poncho woven by his wife from the wool of their own sheep. The sandals he wears to get around his steep mountainside plot are cut from old tyres. His daily food – vegetable soup – simmers in a clay pot turned and fired by a neighbour. And his house is built of home-made adobe brick.

Several million Peruvians live like Mr Lopez. The three hectares of farmland he and his brother inherited from their father provide a bare living: the potatoes, corn and Andean *quinua* cereal they grow just feeds a family of four. A few sheep and two cows are the only savings convertible for cash. In Tangalbamba there is plenty of traditional barter, but money is rare.

For the last decade Tangalbamba's existence has been even more precarious. The northern Peruvian region of Cajamarca, where the hamlet lies, was in the grip of the Maoist-inspired rebels of Sendero Luminoso. Commercial activity was stifled, the road deteriorated into a string of potholes and people lived in fear.

Now a hundred families in Tangalbamba have organised themselves to get their village moving. Mr Lopez is on the development committee. Proudly indicating his flourishing potato plot, he explains that for the first time in years, Tangalbamba has new seed potatoes to replace the badly degenerated old ones.

New genetic material was provided by Cedas, an offshoot of the Catholic church. Each farmer gives back twice the seed potatoes he received, which enter a rotating fund: next year, a neighbour will benefit. Additionally, the Cedas engineers teach farmers to build open-air potato silos to prevent deterioration.

The seeds themselves were bought with money from the $33m Swiss-Peruvian Fund, the largest of its kind in the country. The fund is the result of a debt-for-poverty swap. Two years ago, Switzerland forgave three-quarters of its insured commercial debt with Peru, and in return Peru converted the remainder into a local currency fund.

The fund finances projects that range in size from a few thousand dollars to perhaps $3.5m for a full drinking water system. Half the fund is channelled through non-governmental organisations (NGOs), the rest via state agencies.

"We'd like to see this kind of fund mushroom," says an enthusiastic Mr Fritz Dubois, adviser to the Peruvian economy minister. As well as alleviating poverty the scheme reduces pressure on hard currency payments. Peru will promote the model before other first world creditors at a donor round-table for Peru sponsored by the World Bank in Paris this spring.

> Half of the 24m population live in poverty, say official statistics

Improving the lot of Peru's poor is the official mainspring of government action for the second Fujimori administration. "We cannot accept the indices of poverty we still find in Peru," says Mr Dante Cordova, prime minister. Health, education, infrastructure for development and job creation are top of the government agenda till the year 2000.

Fighting deprivation is a Herculean task in a country like Peru. Half of the 24m population live in poverty according to official statistics: 4m Peruvians are considered "extremely poor" – unable to meet basic nutritional and health requirements.

The most abject living conditions exist in thousands of small villages in the remoter areas of the Andes. In addition to age-old structural poverty, these suffered badly during the guerrilla war of the 1980s.

According to official statistics, almost 90 per cent of Peru's highland farmers live in "critical" poverty.

Though conditions tend to be better in most urban areas, a third of Lima's inhabitants are classified as poor. Only 26 of each 1,000 children born in the capital die before their first birthday: but in rural Huancavelica, infant mortality rates are over 100 per 1,000 – indices comparable with sub-Saharan Africa.

Poor education is another serious obstacle to Peru's future competitiveness. A World Bank memorandum supporting a $146m loan to improve the quality of primary education comments: "During the last three decades, the increase in educational demand has been accompanied by declining financial resources and mismanagement of the sector."

Premier Mr Dante Cordova blames Peru's previous governments for the unequal development of city and countryside. "Former rulers had a very metropolitan vision: they thought Peru was Lima," he says. That remains largely true: the capital provides three-quarters of all bank deposits and the overwhelming majority of tax collections.

The Fujimori government wants to mark the state's presence in every last corner of "El Peru Profundo", the real Peru. A government-controlled, relatively-small emergency fund called Foncodes has been operating since 1991 with the aim of softening the effects of structural adjustment on the poorest Peruvians.

It has received more than 40,000 funding requests for small, decentralised projects: it has been able to supply limited financing for around 14,000.

"By and large it's been a very efficiently managed programme and relatively successful in securing grass-roots participation and responding to demands coming up from below," says Mr Fred Levy, the Lima representative for the World Bank, which has a new $100m loan for Foncodes in the pipeline.

In Foncodes' own view, the emergency period is over and emphasis is shifting towards productive projects to boost sustainable income for farmers and "micro-entrepreneurs".

One European diplomat co-ordinating bilateral aid to Peru questions whether the government really believes decentralisation is the foundation for development. "There's no real concept of development for the country, which makes it difficult to co-ordinate actions," he says. "And the direct involvement of the president does not allow the building of decentralised power structures."

"Where you have energy and roads, there development starts," says Mr Cordova, who served as transport and communications minister in the first Fujimori administration.

Development experts do not think things are so simple. They complain that the state's administration of foreign-financed programmes is lethargic. Despite constant talk of the importance of civil society and free market forces, they see a lack of political will to use the experience of local NGOs, especially in rural development programmes.

Several World Bank loans have stalled in Lima after receiving approval in Washington. Months ago the German government approved two 40-year soft loans each worth DM15m for health and education: red tape in Lima has so far prevented disbursement.

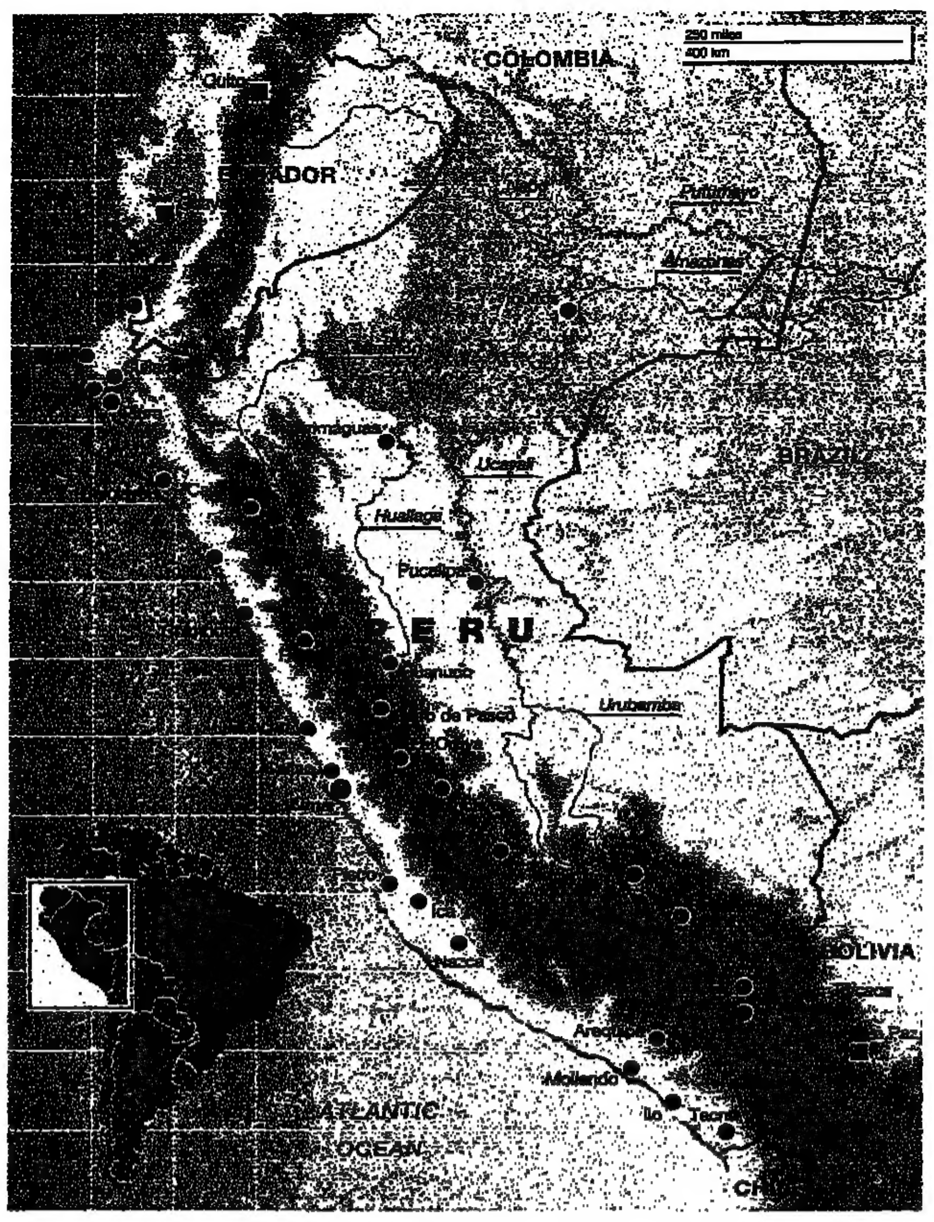
■ **Key facts**

Area	1,285,216 sq km
Population	23.85 million[1]
Head of state	Alberto Fujimori
Average exchange rate	1995 $1=Ns 2.188
	1996[2] $1=Ns 2.248
Currency	Nuevo sol

ECONOMY	1994	1995[3]
Total GDP (US $bn current prices)	49.98	57.87
Real GDP growth (%)	13.0	6.7
GDP per head ($)	1,890	N/A
Components of GDP		
Private consumption	74.5	N/A
Government consumption	7.3	N/A
Fixed investment	20.5	N/A
Exports	11.3	N/A
Imports	-16.6	N/A
Change in stocks[4]	1.0	N/A
Annual average growth in:		
Consumer prices (%) avg.	23.6	10.8
Reserves minus gold ($bn)[5]	6,992	N/A
Money growth (M2, % pa)	39.5	35.0[6]
Stk mkt indx (anl % change)[5]	52.07	-12.12
Total external debt (%GDP)	46.0	43.3
External debt per head ($)	984	1,051
Current account balance ($mn)	-2,169	-3,968
Merchandise Exports($mn)	4,554	5,669
Merchandise Imports ($mn)	-5,662	-7,753
Trade balance ($mn)	-1,108	-2,084
Main trading partners (1994)[7]	Exports	Imports
US	20.9	27.6
Japan	9.2	7.6
UK	8.5	1.3
Germany	6.2	4.3
Italy	4.8	5.7
China	4.2	N/A

(1)Estimate. (2)Year to date. (3)Estimate unless otherwise stated. (4)Plus statistical discrepancy. (5)End period. (6)Jan - November. (7)Share of world trade.
Source: Datastream, Economist Intelligence Unit

Business traveller's guide



■ Population

Almost 24m. Main towns and cities: Lima (almost 6m inhabitants), Callao (640,000), Arequipa (619,000), Trujillo (509,000) and Chiclayo (412,000). Ethnic breakdown: Indian (45 per cent), Mixed race (37 per cent), European (15 per cent), Other (3 per cent).

■ Languages

The main official language is Spanish: the mother tongue of 70 per cent of the population. The Indian languages Quechua and Aymara are official in some regions. Indian tribes in the Amazon basin speak numerous other languages.

■ Entry

Passports are required. Visas are not necessary for visitiors from many countries, including: UK, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland and the US.

■ Health

International vaccination certificates are not a condition of entry but it is wise to have standard vaccinations for visiting a tropical country. Check with your doctor as to which will be appropriate at the time of your visit. There is a risk of malarial infection below 1,500m, except in urban areas. It is not safe to drink tap water.

■ Business hours

Private businesses: (Mon-Fri) 9am to 5pm.
Banks: (Mon-Fri) hours vary but banks are generally open 9.15am to 12.45pm, April to December, with some reopening in the afternoon between 5pm and 6.30pm. Hours are usually 8.45am to 11.30am, January to March.
Government offices: (Mon-Fri) 8am to 4pm, April to December – 7.45am to 1.30pm, January to March.
Shops: (Mon-Sat) many regional variations. Generally 10am to 8pm. Many close between 1pm and 2pm for lunch.

■ Etiquette

Meetings should be arranged in advance and reconfirmed. Visitors should arrive on time, but may be kept waiting.

■ Public holidays

Jan 1 (New Year's Day), May 1 (May Day), June 24 (Day of the Peasant – half-day only), June 29 (St Peter and St Paul's Day), July 28-29 (Independence Day), August 30 (St Rose of Lima), nearest Monday to October 8 (Battle of Angamos), November 1 (All Saint's Day), December 8 (Immaculate Conception), December 25 (Christmas Day). When a public holday falls mid-week, it is moved to the following Monday.

■ Time zone

Five hours behind GMT, except from January to April, when Peru is four hours behind. Iquitos and Cuzco stay five hours behind all year.

■ Climate

Variable according to location, but generally temperate on the coast, tropical in the jungles and cool in the highlands, with a rainy season between October and April. Temperatures in Lima range from 13°C to 28°C.

See key facts panel at bottom of previous page for economic and exchange rate data

■ **Mining:** by Sally Bowen

Sell-offs strike mother lode

Foreign investment has created a near revolution in the metals and minerals industry

In the four years since economic deregulation began to take hold, Peru's mighty mining sector has laid the foundations for a promising future, introducing new technology and modern working practices.

Mining analysts are predicting that thanks to new investment, output of copper and gold could double by the turn of the century. Zinc, lead and silver are set for rises of up to 50 per cent. Copper production topped 400,000 fine tonnes last year, 10.8 per cent higher than in 1994, while gold and silver were up 18.2 and 9.6 per cent respectively.

Much of the credit for kick-starting activity must go to the sweeping privatisation programme, in which mining played a key, early role. Beginning with the sell-off of undeveloped state mineral deposits such as Quellaveco in late 1992, some of Peru's better-developed but badly undercapitalised production units were gradually brought to the auction block.

Most were acquired by foreign – often North American – mining concerns seeking to expand: among them, Cyprus Amax, Magma Copper, Placer Dome and Cambior. Refineries, too, have found new owner-operators: Canada's Cominco for Cajamarquilla's zinc refinery and Southern Peru of the US for Ilo's copper refinery.

The government failed to sell Centromin, the huge state complex of mines, smelters and refineries first time round in May 1994, but will offer it as separate units during 1996.

The sell-off programme has accelerated the development of the industry. "What's really important about these privatisations is not the cash price Peru received," points out Mr Roque Benavides, financial director for Peru's largest private mining group Buenaventura and a former president of the national mine-owners' society SNMP. "Rather, what matters is the associated investment commitments."

Cyprus Amax's $37m winning bid in 1993 for the Cerro Verde copper deposits, for example, committed the US company to investing a further $485m. Part of the money will be spent on the installation of a full-size concentrator plant – something the eternally cash-strapped Peruvian state had never been able to afford.

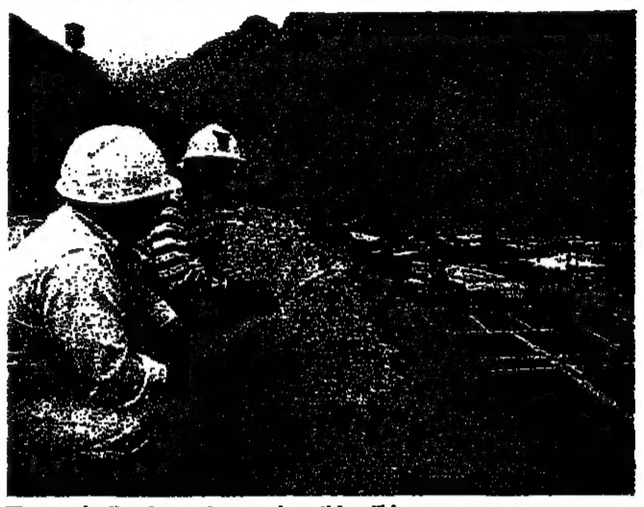
The small pilot concentrator plant that Mineroperu operated for years has now been closed down; Cyprus Amax maintains annual output levels of around 30,000 tonnes solely from the leaching of secondary sulphides. The investment decision on processing Cerro Verde's massive reserves of primary sulphides is expected any day.

Magma, meanwhile, is pleased with its investment at Tintaya, Peru's second most important copper producer. Almost immediately after taking over the mine, bought at a closely-contested auction in November 1994, the new management was able to increase throughput from 7,400 tonnes per day to more than 11,000. Last year's output topped 60,000 fine tonnes, almost 50 per cent more than under state administration.

Pending approval from its head office in the US, Magma will soon begin building a new solvent extraction/electrowinning (SX-EW) plant at Tintaya. Scheduled to produce some 32,000 tonnes of copper cathodes annually, the plant could be on stream as early as next year. Magma is also beginning to investigate several other rich deposits at Tintaya.

It is not just production volumes that foreign investors are affecting: working practices are changing, too. The Canadians and Americans have brought with them modern methods of management. Cyprus Amax has abolished rigid distinctions between blue and white-collar workers and generally improved management-labour communications at Cerro Verde.

After an ambitious retraining and education programme, Magma has recently negotiated a ground-breaking five-year contract with its unions that includes built-in productivity targets.



Zinc production from mines such as this will increase Jon Spaull/Panos

Modernisation of mining practices is making some impact on the traditionally casual attitude Peruvian miners have shown towards environmental protection. The rich Yanacocha gold mine, for example, strictly follows the standards Newmont Mining, its principal shareholder and operator, applies back home in Nevada.

Southern Peru, meanwhile, has taken the first steps towards cleaning up its environmental act. Having been accused for many years of causing intolerable levels of pollution in the southern town of Ilo, Southern Peru recently inaugurated a new sulphuric acid capture plant that will reduce sulphur dioxide emissions from the Ilo smelter by 18 per cent in a first phase costing a total of $103m.

The long-established, US-owned company has invested $445m since it patched up relations with the administration of the president, Mr Alberto Fujimori. The money has paid for environmental improvements such as the upgrading and renewal of machinery at the company's two huge copper mines, which still account for more than 60 per cent of national output. A new SX-EW plant at Toquepala, now operational, will produce an additional 39,000 tonnes of refined copper a year, increasing Peruvian output by about 9 per cent. And a brand new $500m smelter for Ilo is under consideration.

Copper and gold, of course, are not the whole story of Peruvian mining. Glencor International of Switzerland (formerly Marc Rich) is almost ready to inaugurate the long-awaited Iscaycruz zinc mine, 4,200m above sea level in eastern Lima province. With projected output of 50,000 fine tonnes a year – equivalent to some 10 per cent of current national output – Iscayuruz will become Peru's top private zinc producer.

Peru also boasts an array of lesser-known minerals. This year, for example, it will be the world's third largest producer of tungsten. The British-based company, Avocet Ventures, holds 80 per cent of Peru's two premier tungsten mines and plans a London listing shortly.

The increased level of activity and the changes wrought by privatisation should not, however, obscure continuing problems in the country. Peru's mineral wealth is not enough to tempt some potential investors. A new law protecting surface landowners could make mining claims more tenuous and there is little faith in the ability of Peru's notoriously inefficient justice system to resolve disputes. Investors warn that if such concerns are not addressed, they could turn to Brazil or Argentina instead.

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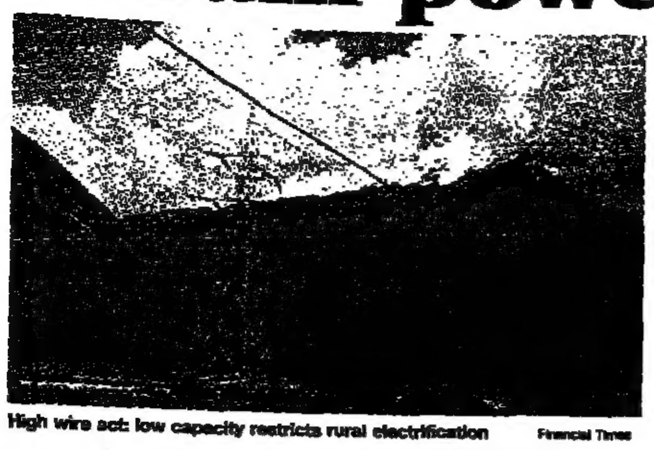
■ **Energy:** by Sally Bowen

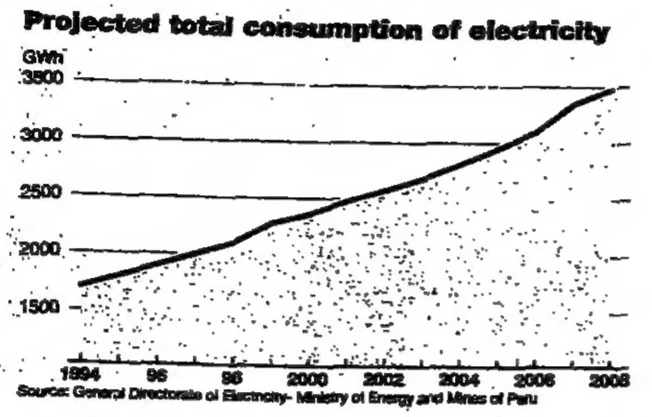
Sun and rain power expansion

The government has set a brisk pace in bringing electricity to remote areas



High wire act: low capacity restricts rural electrification Financial Times

Projected total consumption of electricity



Source: General Directorate of Electricity- Ministry of Energy and Mines of Peru

In mid-February the Uros Indians who live on the floating islands of Titicaca - the world's highest navigable lake - received a surprise visit from President Alberto Fujimori. And he brought a surprise gift: light. Four dozen solar panels, imported from Mexico and the US at a cost of $1,200 apiece, are now providing 350 families with electric light.

The gift went down well. Indian women said electric light would eliminate the danger of candles overturning and burning down their reed huts. It would also allow them to make the most of the long, dark evenings, embroidering the small hand-made items they sell to tourists and which, apart from the male-dominated business of fishing, is the Uros's only livelihood.

When Mr Fujimori took office in 1990, only 45 per cent of Peru's 22m people had electricity: now that figure is 61.5 per cent and rising. Throughout the Andes dozens of mini-hydroelectric plants, costing a couple of million dollars for around 2MW of capacity, are extending power supply to remote areas.

However desirable rural electrification may be – and however politically attractive – Peru faces an energy problem which no quantity of solar panels or mini-hydroelectric plants will resolve. Total generating capacity nationwide is little more than 4,400MW; fresh investment between 1975 and 1990 was virtually nil, as was expenditure on maintenance of existing assets.

More than three-quarters of all Peru's power generation comes from tapping the swift rivers tumbling down steep Andean slopes: scope for extending hydro-electric capacity is almost unlimited. But there are two disadvantages. First, excessive dependence on hydro-electric power is calamitous when a rare drought occurs. Second, large hydro-electric plants can take some seven years to construct, even when full feasibility studies already exist.

Mines and energy ministry officials admit they are disappointed that private investment in generation has been so slow to materialise, despite legislation in November 1992 liberalising the power industry. Because of a tariff system based on marginal costing, investors – who are mainly from Chile and the US – have to date shown a distinct preference for putting their cash into purchases of existing hydro-electric plants: these have very low operating costs yet can charge the same for dispatching peak-time energy as the most expensive thermal plant in the grid.

Privatising the electricity system is seen as one way of boosting investment: now, after a long series of delays, the process seems to be fully under way. Edegel, the 700MW, primarily hydro-electric generating system for Lima, went on the block last October. It was snapped up in a keenly-contested auction by a consortium headed by Entergy of the US and Endesa of Chile, who paid around $500m in cash and debt for a 60 per cent controlling stake.

Etevensa, the 200MW thermal plant designed as an emergency back-up facility for the capital and now running round the clock, was sold at auction in December to Generalima, a consortium formed by Spain's Endesa in association with two minority Peruvian partners. Lima's two electricity distribution systems were privatised in mid-1994, acquired by Chilean-North American consortia.

The new owners of former state generating plants – several more of which are scheduled for privatisation this year – must meet important investment commitments. Edegel's operators, for example, will expand capacity by 100MW within a year; Etevensa's by 290MW in the next 30 months, indeed an expansion of over 200MW was made a prerequisite in bidding conditions.

In the medium-term – and in the absence of private sector investment – the government has stepped in to get several key hydro-electric projects off the ground. First is San Gaban in the high Andean department of Puno. Japan's Eximbank has promised a soft loan worth $155m, with the Peruvian treasury putting up the remaining $45m. Similar deals, it is hoped, will be struck for the 150MW Mayush plant and the 126MW Yunca plant, located on the coast north of Lima and in the central Andes respectively. All will eventually be privatised.

The lasting solution to Peru's energy problem undoubtedly lies in developing the huge natural gas fields of Camisea in the south-east of Cuzco department. Discovered by Royal Dutch Shell during a $200m exploration campaign between 1981 and 1987, Camisea is one of Latin America's largest deposits: studies indicate it could yield 12 trillion cubic feet of natural gas and 700m barrels of condensates. Together these are the equivalent of 2.4bn barrels of oil, more than six times Peru's current, depleted reserves.

Stymied by political problems with the Alan Garcia government in the late 1980s, fresh negotiations between Shell and the Peruvian administration were due for completion by the end of February 1996. Agreement must be reached over royalties payable and, most importantly, a minimum development programme. In essence, this hinges on when it will be economically viable to bring Camisea's gas to Lima via a costly trans-Andean pipeline.

In a first stage it seems certain that gas will be used to generate thermal electricity close to the Camisea well-head.

Three international power producers have been short-listed to build plants expected to dispatch some 500MW into the national grid. They could be up and running by early 1999.

More immediately, in Aguaytia in the north-eastern jungle, Maple Gas and five other US associates are about to begin developing a smaller natural gas deposit. Investment totalling some $180m will be used to build thermal power stations, one to serve the nearby jungle town of Pucallpa, the other to feed 140MW into the grid. Completion is scheduled for September 1997.

With Peru's economy set to grow at an average of 5 per cent a year for the foreseeable future, energy experts say generation capacity must expand between 8.5 and 10 per cent per annum to keep pace with demand. For cleanliness, price and availability, natural gas looks like Peru's best medium-term option.

Plenty to celebrate: gold output is forecast to double by the end of the century Julian Rojas/Panos

■ **Gold:** by Sally Bowen

Ore inspiring work

New technology means the poor town of Cajamarca can tap its greatest natural resource

The northern Andean town of Cajamarca used to be famous chiefly for the well-preserved room where, in 1533, subjects of the god-king, Inca Atahualpa, amassed 11 tonnes of gold to meet ransom demands of Pizarro's Spanish "conquistadores". Their efforts were in vain: Inca Atahualpa was garrotted anyway.

Today, gold has put the impoverished Cajamarca back on the map. Forty minutes away by road lies the fabulous deposit of Yanacocha, Latin America's largest gold producer. Last month it poured its millionth ounce since coming on stream in August 1993.

Yanacocha is a prime example of how modern technology has unlocked well-known but long-unexploited riches. Until the mid-1980s, the disseminated nature of deposits meant recovering the precious metal was not commercially viable. Heap leaching – essentially watering crushed ore with a cyanide solution – has changed all that.

When the US-Peruvian joint venture partners Newmont Mining and Buenaventura took their 1992 decision to invest in Cajamarca, an area then racked by guerrilla violence, it looked like a brave move. But the gamble paid off handsomely. Like most of Peru's countryside, Cajamarca is peaceful again; and Yanacocha's gold repaid the initial $40m investment in a startling seven months.

Last year's output from the 25,000-hectare Yanacocha site was 552,000oz and this year's production budget conservatively envisages 625,000oz. It could turn out substantially higher: improved water management has boosted production to around 60,000oz in each of the past couple of months, when recovery normally slumps because of heavy rains.

Mr Thomas Conway, Yanacocha's general manager, says the joint venture partners will be spending some $15m on exploration and mine geology in 1996, about the same as last year. The partners have two other interesting prospects immediately north of Yanacocha. The next big output leap for Yanacocha itself is projected for 1997 when "Project X" comes on stream with a new plant and leaching pads, plus fresh financing.

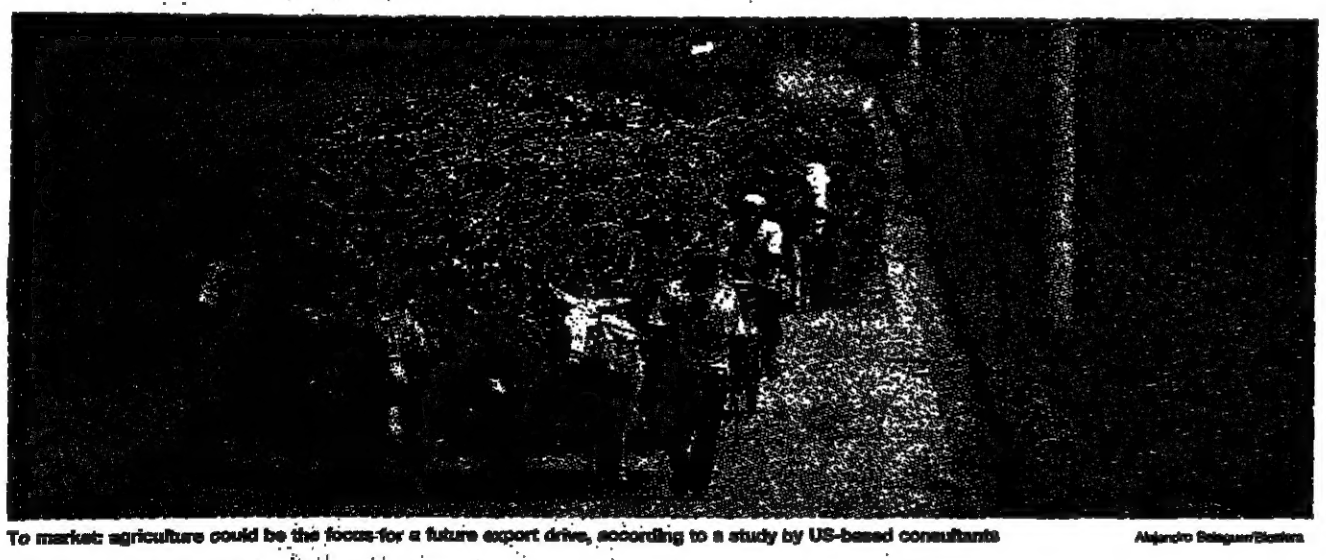
Yanacocha's cash costs are around $120 per oz against a gold price in excess of $400. Not surprisingly, the mine's resounding profitability has drawn many other fortune-hunters to the Cajamarca area. Among the companies currently drilling in northern Peru are American Barrick, Placer Dome and Cambior.

National production of around 56.5 tonnes last year has already made Peru Latin America's second gold producer behind Brazil. Mr Jaime Uranga, president of the gold committee at SNMP, the mining society, believes output could double by the end of the century, making Peru Latin America's premier producer.

The yellow metal is now Peru's second most important mineral export after copper. Last year, overseas sales earned $454.6m, more than 18.8 per cent of all mineral export earnings.

And the new "conquistadores" are friendlier than their predecessors. Mr Conway says Yanacocha spent $3m last year on poverty alleviation programmes in Cajamarca and paid $14m in wages to a workforce that is now almost completely local.

"We estimate one direct mining job creates 10 additional jobs in the area," he says. "Social programmes give us better-educated, friendlier neighbours. We believe in it and can afford it."



To market: agriculture could be the focus for a future export drive, according to a study by US-based consultants Alejandro Balaguer/Bostara

■ **Exports:** by Richard Lapper

Change has yet to bear fruit

The dismantling of restrictive tariffs and labour laws has failed to spark a boom

In the late 1980s Mr Hernan Büchi, the former Chilean finance minister, urged Peruvian businessmen to adopt the Chilean approach to free trade. He received an unethusiastic response. "We didn't understand why the cost structure of our exports was so determinant," says Mr Juan Francisco Raffo, a prominent local industrialist. Five years on, Peruvian exporters are realising the advantages of the Chilean model. "Every pothole in the roads which the government fills in reduces our cost structure," says Mr Raffo. Even so progress to date has been limited. Although Peru has begun to improve its competitiveness and diversify its export base, the country still remains heavily dependent on its traditional mining exports.

The government has already reduced port costs, once a big bugbear for traders, by as much as 70 per cent, and has targetted much needed investment on the country's road network. Business has also benefited from legislation allowing employers to hire and fire workers more freely, which has cut labour costs.

Mr Raffo says: "The flexibility of labour has been sensational. It might be a bit unfair, but we have legislation which is as perfect as we can expect."

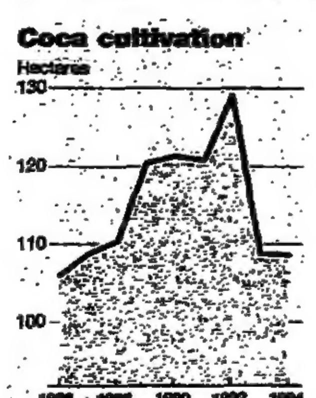
The privatisation of more state assets should also yield benefits for industrialists in the form of cheaper energy and better services. The government will sell its remaining 29 per cent stake in the former state-run telephone company Telefonica through an international flotation later this year. Two electricity distributors and a number of other utilities, energy and mining businesses will also come up for sale.

The reforms create challenges for domestic producers and exporters as well as benefits. President Fujimori's economic team moved quickly in 1991 to reduce trade barriers, with an estimated 90 per cent of import tariffs falling to a 15 per cent rate, compared to rates of more than 100 per cent in some cases before. The extent of liberalisation in this respect has been greater than in any other Latin American country, claims Mr Raffo. "The Mexicans can't believe we don't give ourselves any protection," he says.

The new policy has triggered a savage rationalisation with some industrial sectors such as the motor and television assembly businesses disappearing altogether. However it has also allowed Peru to press – successfully in some cases – for easier access to overseas markets.

Peru enjoys preferential trade access to US and European markets – in part linked to co-operation in anti-drugs initiatives – and is seeking to free up trading relations with its neighbours. It has still to define its future relationship with the Andean Pact, following a temporary withdrawal in 1992. Meanwhile it has made preliminary contacts with the southern Mercosur trade pact, has established a zero tariff regime with Bolivia and hopes to achieve a similar free-trade agreement with Chile later this year.

Coca cultivation



Source: US state department

Moves to bring strategic direction to export development have been limited in scope but the government has sponsored extensive research by Monitor, the Boston-based consultancy, into all three sectors – agribusiness, tourism and forestry – in which it has identified future potential. Efforts have also been made to link services supplied by the state – in training and on the diplomatic front, for example – to exporters' needs.

Exporters claim more needs to be done. They are pushing for tax concessions and an acceleration of the privatisation of infrastructure needs, pointing to shortcomings in areas such as the postal service. "This is an organisation which hasn't been touched," says Mr Raffo.

Exporters are critical of the government's failure to improve international air communications, claiming that commitments to an open skies policy have not been borne out in practice. Asparagus exporters argue that their efforts to promote exports to the growing European market have been hampered by relatively high transport costs and the shortage and unreliability of cargo flights.

Freight charges account for about half the production and distribution costs of exported asparagus, argues Mr Jorge Checa Arias, chief executive of one of the country's biggest asparagus producers and president of the exporters' association's fruits and vegetable committee. Until a recent agreement by the government to allow more cargo flights, freight costs to the European market were 50 per cent higher than those paid by Chilean exporters, despite the greater geographical distance.

Despite these criticisms the government can point to some successes. Last year non-traditional exports – which include textiles and agribusiness products – earned some $1.44bn, a rise of more than 19.9 per cent over the same period of the previous year.

Promising sectors include textiles made from Peru's high quality cottons, preserved asparagus and timber products. And there are plans to promote more exotic exports, for example mangoes, jojoba – a vegetable oil with cosmetic applications – and even cochineal, a dyestuff obtained from a parasite of cacti.

These non-traditional exports are merely recovering an importance they have lost rather than gaining new ground. As recently as 1980 exports of non-traditionals were worth $1.1bn (at 1990 prices). And as Mr Jaime Armando Garcia, vice minister of industry, readily concedes, the non-traditional industrial segment is a heavy consumer of capital goods, accounting for an estimated $2.5bn in imports in 1995. "Still the balance is negative – although the government is aiming to increase exports further," explains Mr Garcia.

A glance at 1995's trade statistics shows that Peru is still heavily dependent on traditional exports, particularly copper, zinc, lead and, increasingly, gold. Rises in copper prices help explain nearly two-thirds of the increase in export revenues between 1994 and 1995.

Revenues from gold also rose but in this case the increase reflects an impressive rise in output, following new investments at the Yanacocha mine.

Fishing: by Sally Bowen

Strategy needs a rethink

Processors plan to exploit deep-sea stocks as extraction of shallow-water species peaks

There could hardly be a greater contrast between the barren moonscape of Peru's coast and the teeming Pacific waters which run its full 3,000-kilometre length. Peru's offshore fishing grounds are among the richest in the world; for the past couple of years, catches have been second only to China's.

Although Peruvians consume a large variety of top quality seafood harvested from the cold Pacific waters, the bulk of the catch is processed into fishmeal. Fishing itself is still a largely rustic activity, with some 80 per cent of the Peruvian fleet composed of small boats up to thirty years old. Most venture no further than 10 miles from shore. They return to port with an unrefrigerated cargo of anchovy and sardine to sell direct to the fishmeal factories spread along the coast.

In the past four years, investment – predominantly from the domestic private sector – has concentrated on upgrading the processing industry. At Pisco, a port some 250 kilometres south of Lima, half-a-dozen brand new factories line the foreshore across the bay from the Paracas nature reserve, a nature lovers' paradise inhabited by sea-lions, penguins and booby-birds.

San Antonio and Diamante are among the newest plants, both operating for less than a year.

They display a mass of gleaming pipework, spanking fresh paint, huge boilers without a trace of grease or dirt, computerised control rooms and vast, low-temperature driers designed to produce the high quality meals for which prawn and salmon farmers are prepared to pay a handsome premium.

Spurred by escalating international fishmeal prices, Peruvian fishing magnates have been investing heavily: Mr Richard Diaz, general manager of the national fishing association SNP reckons at least $500m has gone into the sector since economic liberalisation in 1991. A new 60-tonne-per-hour plant using Norwegian or Chilean technology costs between $15m and $20m. But with prime meal commanding over $600 per tonne, investors make a quick return on their outlay.

Last year fishmeal exports fell 16.8 per cent to 2.1m tonnes, a result of a 22.4 per cent drop in the catch compared with 1994's record of 11.6m tonnes. Earnings from fishing sector exports, however, increased 3.9 per cent thanks to unusually buoyant prices. Last year fishmeal accounted for $766.5m of total fishing sector export revenue of $936.7m making it Peru's second most important single export product after copper.

Investment in modern technology has helped create a more efficient industry. Instead of using up to 6 tonnes of fish to produce one of meal, the overall ratio has now fallen to 4.6 tonnes to one.

Modern plants are also more environmentally friendly. Even though the waste regurgitated into the sea during industrial processing is organic (largely fish oil and solid fish matter), it can at times cause unacceptable levels of pollution around Peru's coast, most notably near the Paracas reserve.

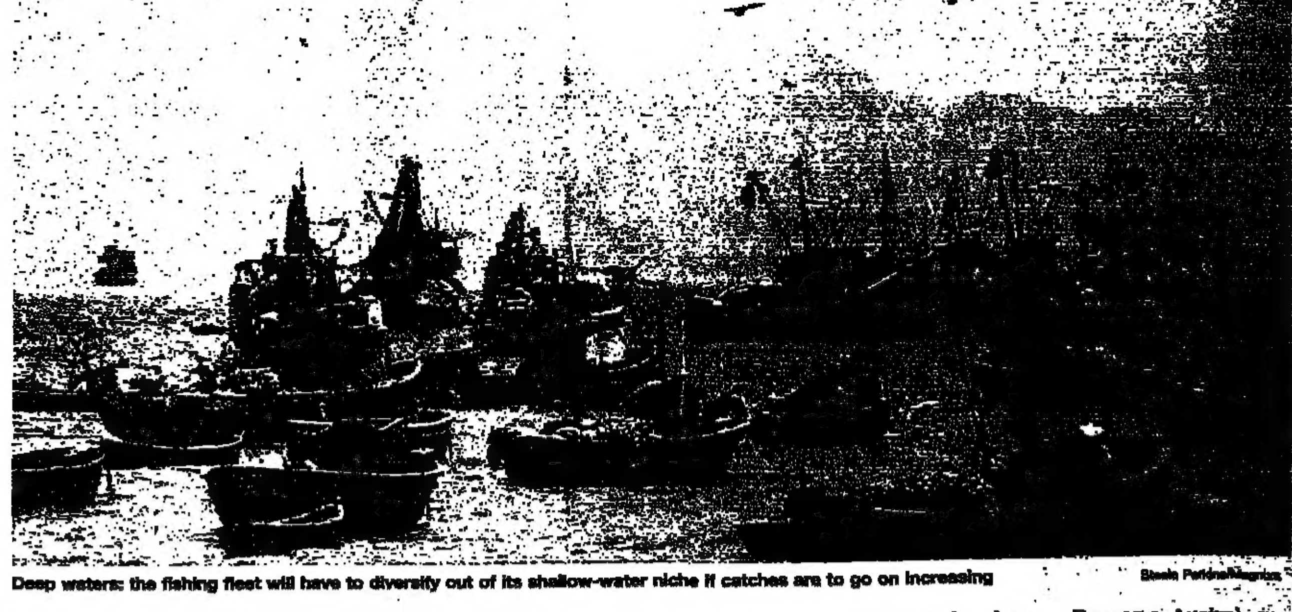
"With the post-1992 boom, plants grew too fast. Pollution has been caused by an unfortunate conjunction of factors," says Mr Diaz.

Processing plants must now present environmental impact studies and factory owners say government inspections are rigorous. The best new factories can now recover almost all solids and no longer pump foul-smelling steam into the skies. But others are still far from acceptable by international standards of waste management.

The industry recognises that Peru has reached its limits both in extraction of anchovy and sardine and in fishmeal processing. Regulations passed last year prohibit installation of any more plants. Existing factories may not expand capacity and the overall size of the fishing fleet has been capped.

The UN's Fishing and Agriculture Organisation has advised on a more sophisticated plan to reorder the sector and fine-tune some of Peru's currently blunt instruments which the fisheries ministry has yet to publish.

Whatever new regulations may emerge to pre-empt the dangers of overfishing, there remain significant opportunities for extraction of currently under-exploited deep-sea species. San Antonio, for example, has two fully-refrigerated, 550-tonne fishing boats under construction in Lima's port of Callao. Each will cost around $4.5m. The company's fleet already has 16 350-tonne day boats which fish close to its processing plants in Pisco, and Supe, north of Lima.



Deep waters: the fishing fleet will have to diversify out of its shallow-water niche if catches are to go on increasing

Stasis Petkine/Magnum

These new boats will fish for horse and jack mackerel. Little-exploited stocks of these fish are abundant in deeper waters and provide appropriate raw material for conversion to meal.

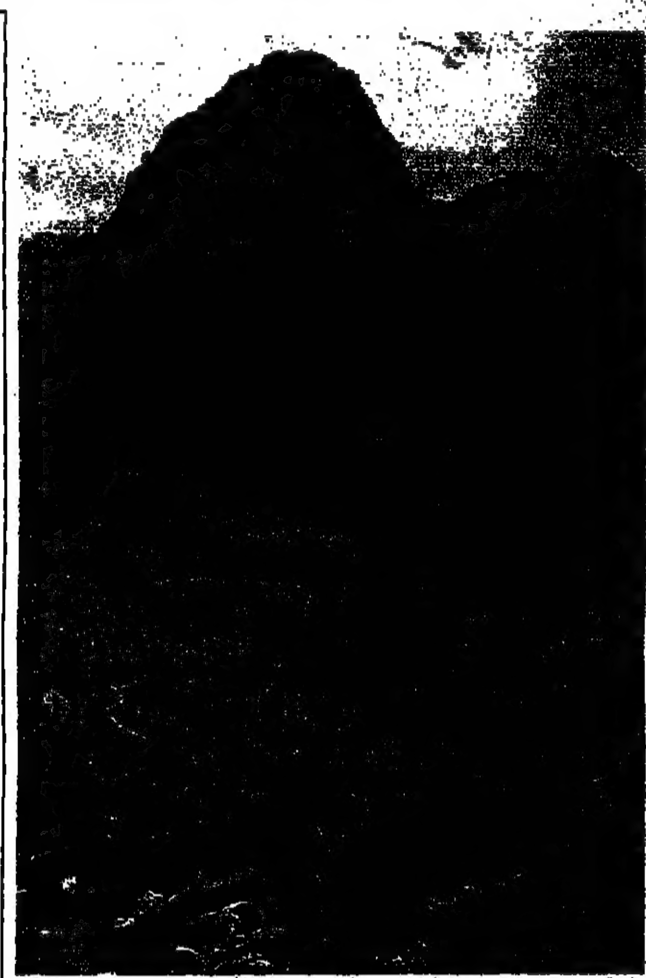
If fishmeal looks set to continue as a staple export for many years to come, non-traditional products are starting to gain ground. These include frozen hake, and smaller quantities of turbot and shrimp from northern Peruvian waters. Frozen fish exports earned almost $73m last year.

Several fishing entrepreneurs, meanwhile, are attempting to revive Peru's once-flourishing canning industry. Mr Salomon Manzur of Consorcio Pesquero Carolina, Peru's leading canner, is an enthusiastic proponent of the canned fish option.

"It takes some five tonnes of fish to produce a tonne of fishmeal which, in normal conditions, sells for an average of $400," he says. "The same quantity produces 125 cases of canned sardine worth $2,000. You get much greater value-added and you give employment, which is what Peru needs."

The economic logic is not lost on Pesquera Austral, currently Peru's second largest fishmeal producer. It is contemplating investing up to $40m in a canning plant.

Analysts say that Peruvian canned fish output could top 20m cases a year within a couple of years. This is double production in a brief 1981-82 canning heyday, before the periodic warm current of El Nino ravaged fish stocks in 1983.



Macchu Picchu: Peru lacks infrastructure, not attractions

Tourism: by Richard Lapper

Cool welcome

Visitors must brave poor transport and accommodation to see incomparable ancient sites

Peru's tourism industry is slowly recovering from terrorism, growing crime and a cholera epidemic. This triple burden plunged the sector into deep difficulties in the early 1990s. The industry has lost substantial ground against competing centres elsewhere in Latin America. Peru's deficient infrastructure is likely to block more rapid development.

On the surface the recovery has been impressive. According to figures released by the ministry of industry and tourism, the number of foreign visitors to Peru increased last year by 25.7 per cent to 485,169. This is an increase of more than 100 per cent since 1992 when only 217,000 visitors were registered. This year the government is aiming to attract 600,000 tourists, a target which would, if achieved, generate some $700m in foreign exchange earnings.

Growth has been from a low base. Official figures include business visitors to Peru. According to a study completed last year by Monitor, an independent US-based consultancy, only about 120,000 of the 376,000 people who came to Peru in 1994 were genuine tourists. Even though the figure was 80 per cent higher than 1993, the number of visitors has still not recovered levels reached in 1988.

Between 1982 and 1993 the number of tourists visiting Peru fell by an average of 1.9 per cent per year, compared with average annual increases for Costa Rica and Ecuador of 9.2 per cent and 6.4 per cent respectively. Monitor says that the industry is confronting "many of the same problems it faced 30 year ago...the country is not prepared to successfully accommodate a great number of tourists."

The sharp decline of the early 1990s has left many tourism operators and hoteliers heavily indebted and unable to take advantage of new investment opportunities. Outside Lima many hotels lack facilities regarded as basic by international travellers. Monitor's study showed the absence of regular hot water in hotels located in the sometimes wintery Andean highlands was seen by visitors as a serious drawback.

Peru's infrastructure, especially in transport, continues to deter tourists, despite substantial improvements to the country's roads and internal air services. Tourists travelling from Cuzco to the Inca ruins of Machu Picchu, seen by some as potentially the biggest single tourist attraction on the continent, face an arduous three to four-hour journey and are effectively limited to using one train service a day which leaves between six and seven o'clock in the morning.

> The industry has lost ground against other Latin American centres

Some improvement is occurring, largely as a result of the government's privatisation programme, which has involved the sale of hotels to private sector groups and independent initiatives by a number of international hotel chains. During the first half of 1995 almost all the hotels offered for sale by the government were snapped up by private sector groups for slightly less than $50m, plus additional investment commitments of more than $20m. Invertur, for example, bought formerly state-owned hotels at locations including Ayacucho, Nazca and Moquegua. It is now planning to build a first-class apartment hotel at San Isidro in Lima.